REFUNDING ISSUE
Book-Entry-Only

RATING: Standard & Poor's: "AAA" (AMBAC Insured)
"A+" (Underlying)
(See "RATING" herein)

In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Series 2007 A Bonds (as hereinafter defined) is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2007 A Bonds. In the opinion of Bond Counsel, under existing laws, interest on the Series 2007 A Bonds is exempt from income taxation in the State of Indiana, except for the financial institutions tax. See "TAX MATTERS" and Appendix C herein.

$44,915,000
Indiana Bond Bank
Special Program Refunding Bonds, Series 2007 A
(Hendricks Regional Health Financing Program)

Dated: Date of Delivery

Due: As shown on the inside cover

The Special Program Refunding Bonds, Series 2007 A (Hendricks Regional Health Financing Program) (the "Series 2007 A Bonds"), being issued by the Indiana Bond Bank (the "Bond Bank"), will bear interest from the date of delivery of the Series 2007 A Bonds, to their respective maturities in the amounts and at the rates set forth on the inside front cover. The Series 2007 A Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Series 2007 A Bonds will be made in book-entry-only form, in the denomination of $5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Series 2007 A Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Series 2007 A Bonds. Interest on the Series 2007 A Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2007. The principal of and interest on the Series 2007 A Bonds will be paid directly to DTC by U.S. Bank National Association, as trustee (the "Trustee"), under the Indenture, as defined and described herein, so long as DTC or its nominee is the registered owner of the Series 2007 A Bonds. The final disbursement of such payments to the Beneficial Owners of the Series 2007 A Bonds will be the responsibility of the Direct Participants and the Indirect Participants, all as defined and more fully described herein under the caption "THE SERIES 2007 A BONDS-Book-Entry-Only System."

The Series 2007 A Bonds are issued by the Bond Bank for the principal purposes of (1) advance refunding a portion of the Bond Bank's outstanding Special Program Bonds, Series 2002 D (Hendricks Community Hospital Financing Program); (2) paying the premiums for a financial guaranty insurance policy and a debt service reserve fund surety bond to Ambac Assurance Corporation (the "Series 2007 A Bond Insurer"); and (3) paying other costs related to the issuance of the Series 2007 A Bonds, all as more fully described in this Official Statement.

The Series 2007 A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein under the caption "THE SERIES 2007 A BONDS-Redemption."

The Series 2007 A Bonds are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture. The Series 2007 A Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana (the "State") or any political subdivision thereof, including any Qualified Entity (as defined herein) under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including any Qualified Entity. The source of payment of, and security for, the Series 2007 A Bonds are more fully described herein. The Bond Bank has no taxing power.

(A detailed maturity schedule is set forth on the inside cover)

The scheduled payment of principal of and interest on the Series 2007 A Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series 2007 A Bonds by the Series 2007 A Bond Insurer.

Ambac

The Series 2007 A Bonds are offered when, as and if issued by the Bond Bank and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by special counsel for the Issuer, Coleman Graham & Stevenson, LLC, Indianapolis, Indiana, and for the Underwriters by their counsel, Baker & Daniels LLP, Indianapolis, Indiana. It is expected that the Series 2007 A Bonds will be available for delivery to DTC in New York, New York on or about May 24, 2007.

SEASONGOOD & MAYER LLC **RBC CAPITAL MARKETS**

This cover page contains information for reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

May 1, 2007

Maturity Schedule

$44,915,000
Indiana Bond Bank
Special Program Refunding Bonds, Series 2007 A
(Hendricks Regional Health Financing Program)

$22,465,000 Serial Series 2007 A Bonds

Maturity Date	Principal	Interest Rate	Yield
$1,575,000	04/01/2013	5.000%	3.770%
1,650,000	04/01/2014	5.000%	3.820%
1,730,000	04/01/2015	5.000%	3.880%
1,820,000	04/01/2016	5.250%	3.950%
1,910,000	04/01/2017	5.250%	4.000%
2,015,000	04/01/2018	5.250%	4.060%
2,120,000	04/01/2019	5.250%	4.110%
2,230,000	04/01/2020	5.250%	4.170%
2,345,000	04/01/2021	5.250%	4.210%
2,470,000	04/01/2022	5.250%	4.240%
2,600,000	04/01/2023	5.250%	4.270%

$22,450,000 Term Series 2007 A Bonds

$5,615,000 5.250% Term Bonds due April 1, 2025, Yield 4.310%
$6,220,000 5.250% Term Bonds due April 1, 2027, Yield 4.330%
$10,615,000 5.250% Term Bonds due April 1, 2030, Yield 4.340%

INDIANA BOND BANK

Board of Directors
Richard Mourdock, Chairman, Ex Officio
Clark H. Byrum, Vice Chairman
Russell Breeden, III
Ryan C. Kitchell
Russell Lloyd, Jr.
Marni McKinney
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Officer of the Bond Bank
Dan Huge, Executive Director

Trustee
U.S. Bank National Association
Indianapolis, Indiana

Indiana Bond Bank Counsel
Coleman Graham & Stevenson, LLC
Indianapolis, Indiana

Bond Counsel
Barnes & Thornburg LLP
Indianapolis, Indiana

Financial Advisor
Crowe Chizek and Company LLC
Indianapolis, Indiana

No dealer, broker, salesperson or other person has been authorized by the Bond Bank or by the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Series 2007 A Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2007 A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been no changes in the information presented herein since the date hereof.

Other than with respect to information concerning the Series 2007 A Bond Insurer contained under the captions "FINANCIAL GUARANTY INSURANCE POLICY" and "DEBT SERVICE RESERVE FUND SURETY BOND" and in Appendix F, "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY," and Appendix G, "SPECIMEN DEBT SERVICE RESERVE FUND SURETY BOND" herein, none of the information in this Official Statement has been supplied or verified by the Series 2007 A Bond Insurer and the Series 2007 A Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Series 2007 A Bonds; or (iii) the tax exempt status of the interest on the Series 2007 A Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007 A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE STATE, THE BOND BANK, THE SERIES 2007 A QUALIFIED ENTITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE SERIES 2007 A BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

$44,915,000
Indiana Bond Bank
Special Program Refunding Bonds, Series 2007 A
(Hendricks Regional Health Financing Program)

INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of its $44,915,000 aggregate principal amount of Special Program Refunding Bonds, Series 2007 A (the "Series 2007 A Bonds"), to be issued by the Bond Bank. The Series 2007 A Bonds have been authorized by a Resolution adopted by the Board of Directors of the Bond Bank on March 20, 2007, and will be issued pursuant to the provisions of a Trust Indenture, dated as of May 1, 2007, between the Bond Bank and the Trustee (as hereinafter defined) (the "Indenture"), and the laws of the State of Indiana, including particularly Indiana Code 5-1.5 (as amended from time to time, the "Act"). U.S. Bank National Association is the trustee, registrar and paying agent (the "Trustee") under the Indenture.

The proceeds from the sale of the Series 2007 A Bonds will be used to provide funds to (a) advance refund a portion of the Bond Bank's outstanding Special Program Bonds, Series 2002 D (Hendricks Community Hospital Financing Program) (the "Refunded Bonds"); (b) fund the purchase of securities of the Board of Trustees of Hendricks County Hospital (the "Series 2007 A Qualified Entity"); (c) pay the premiums for a financial guaranty insurance policy and a debt service reserve fund surety bond from Ambac Assurance Corporation (the "Series 2007 A Bond Insurer"); and (d) pay the other Costs of Issuance (as defined in Appendix E) of the Series 2007 A Bonds, including underwriters' discount. See the caption "APPLICATION OF PROCEEDS OF THE SERIES 2007 A BONDS."

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument. Summaries of certain provisions of the Indenture, the Loan Agreement, the Series 2007 Note, the Master Indenture and the Supplemental Note Indenture (collectively, the "Financing Documents"), and definitions of some of the capitalized words and terms used in this Official Statement, are set forth in Appendix D and Appendix E, respectively. Terms not defined herein shall have the respective meanings ascribed thereto in the Indenture.

Information contained in this Official Statement with respect to the Bond Bank and the Series 2007 A Qualified Entity and copies of the Financing Documents may be obtained from the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204. The Bond Bank's telephone number is (317) 233-0888.

THE SERIES 2007 A BONDS

General Description

The Series 2007 A Bonds are issuable as fully registered bonds in denominations of $5,000 or any integral multiple thereof. The Series 2007 A Bonds will be dated the date of delivery thereof and will also carry the date of authentication thereof.

Interest on the Series 2007 A Bonds will be payable semiannually on April 1 and October l of each year, commencing October 1, 2007 (each an "Interest Payment Date"). The Series 2007 A Bonds will bear interest (calculated on the basis of a 30-day month and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. If a Series 2007 A Bond is authenticated on or prior to September 15, 2007, it shall bear interest from the date of delivery of the Series 2007 A Bonds. Each Series 2007 A Bond authenticated after September 15, 2007, shall bear interest from the most recent Interest Payment Date to which interest has been paid on the date of authentication of such Series 2007 A Bond unless such Series 2007 A Bond is authenticated after a Record Date and on or before the next succeeding Interest Payment Date, in which event the Series 2007 A Bond will bear interest from such next succeeding Interest Payment Date.

When issued, all Series 2007 A Bonds will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests from DTC in the Series 2007 A Bonds will be made in book-entry-only form (without certificates) in the denomination of $5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Series 2007 A Bonds, payments of the principal of and interest on the Series 2007 A Bonds will be made directly by the Trustee by wire transfer of funds to Cede & Co., as nominee for DTC. Disbursement of such payments to the participants of DTC (the "DTC Participants") will be the sole responsibility of DTC, and the ultimate disbursement of such payments to the Beneficial Owners, as defined herein, of the Series 2007 A Bonds will be the responsibility of the Direct Participants and the Indirect Participants, as defined herein. See the heading, "Book-Entry-Only System" under this caption.

If DTC or its nominee is not the registered owner of the Series 2007 A Bonds, the principal of the Series 2007 A Bonds will be payable at maturity upon the surrender thereof at the principal corporate trust office of the Trustee. Interest on the Series 2007 A Bonds, when due and payable, will be paid by check dated the due date mailed by the Trustee one business day prior to the due date (or, in the case of an owner of Series 2007 A Bonds in an aggregate principal amount of at least $1,000,000, by wire transfer on such due date, upon written direction of such registered owner to the Trustee not less than five business days before the Record Date immediately prior to such Interest Payment Date, which direction shall remain in effect until revoked in writing by such owner) to the persons in whose names such Series 2007 A Bonds are registered, at their addresses as they appear on the bond registration books maintained by the Trustee on the Record Date, irrespective of any transfer or exchange of such Series 2007 A Bonds subsequent to such Record Date and prior to such Interest Payment Date unless the Bond Bank shall default in the payment of interest due on such Interest Payment Date.

Except as provided under "Book-Entry-Only System," in all cases in which the privilege of exchanging or transferring Series 2007 A Bonds is exercised, the Bond Bank will execute and the Trustee will deliver Series 2007 A Bonds in accordance with the provisions of the Indenture. The Series 2007 A Bonds will be exchanged or transferred at the principal corporate trust office of the Trustee only for Series 2007 A Bonds of the same tenor and maturity. In connection with any transfer or exchange of Series 2007 A Bonds, the Bond Bank or the Trustee may impose a charge for any applicable tax, fee or other governmental charge incurred in connection with such transfer or exchange, which sums are payable by the person requesting such transfer or exchange.

The person in whose name a Series 2007 A Bond is registered will be deemed and regarded as its absolute owner for all purposes and payment of principal thereof and interest thereon will be made only to or upon the order of the registered owner or its legal representative, but such registration may be changed as provided above. All such payments shall be valid to satisfy and discharge the liability upon such Series 2007 A Bond to the extent of the sum or sums so paid.

Redemption

Optional Redemption from Insurance or Condemnation Net Proceeds. The Series 2007 A Bonds are, at the option of both the Series 2007 A Qualified Entity and the Bond Bank, subject to redemption from the Net Proceeds (as defined in the Master Indenture) of an insurance or condemnation award, in whole at any time or in part on any interest payment date, in any order of maturity of principal installment or portion thereof selected by mutual consent of the Bond Bank and the Series 2007 A Qualified Entity, at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the redemption date, in case of damage or destruction to, or condemnation of, any Operating Assets (as defined in the Master Indenture) of the Series 2007 A Qualified Entity, provided that the Net Proceeds of the insurance or condemnation award exceed $3,000,000 and that the Board determines not to use such Net Proceeds to repair, rebuild or replace such Operating Assets.

Optional Redemption from Other Moneys. The Series 2007 A Bonds are subject to optional redemption on any day prior to maturity by the Issuer or the Series 2007 A Qualified Entity, in whole or in part, at a redemption price equal to the greater of (a) one hundred percent (100%) of the Amortized Value (as defined below) of the Series 2007 A Bonds to be redeemed, plus accrued and unpaid interest to the date of redemption; or (b) the sum of the present values of the remaining unpaid payments of principal and interest to be paid on such Series 2007 A Bonds to be redeemed from and including the date of redemption to the stated maturity date of such Series 2007 A Bonds, discounted to the date of redemption on a semiannual basis at a discount rate equal to the Applicable Tax-Exempt Municipal Bond Rate (as defined below) minus 0.15%.

"Amortized Value" means, with respect to such Series 2007 A Bond to be redeemed, the principal amount of such Series 2007 A Bond multiplied by the price of such Series 2007 A Bond expressed as a percentage, calculated based on the industry standard method of calculating bond prices (as such industry standard prevails on the date of issuance of the Series 2007 A Bonds), with a delivery date equal to the date of redemption, a maturity date equal to the stated

maturity date of such Series 2007 A Bond and a yield equal to such Series 2007 A Bond's original reoffering yield, which, in the case of certain dates, produces the amounts for the Series 2007 A Bonds set forth in Appendix H.

The *"Applicable Tax-Exempt Municipal Bond Rate"* for such Series 2007 A Bonds will be the "Comparable AAA General Obligations" yield curve rate for the stated maturity date of such Series 2007 A Bonds as published by Municipal Market Data five business days prior to the date of redemption. If no such yield curve rate is established for the applicable year, the "Comparable AAA General Obligations" yield curve rate for the two published maturities most closely corresponding to the applicable year will be determined, and the "Applicable Tax-Exempt Municipal Bond Rate" will be interpolated or extrapolated from those yield curve rates on a straight-line basis. This rate is made available daily by Municipal Market Data and is available to its subscribers through its internet address: www.tm3.com. In calculating the Applicable Tax-Exempt Municipal Bond Rate, should Municipal Market Data no longer publish the "Comparable AAA General Obligations" yield curve rate, then the Applicable Tax-Exempt Municipal Bond Rate will equal the Consensus Scale yield curve rate for the applicable year. The Consensus Scale yield curve rate is made available daily by Municipal Market Advisors and is available to its subscribers through its internet address: www.theconsensus.com. In the further event Municipal Market Advisors no longer publishes the Consensus Scale, the Applicable Tax-Exempt Municipal Bond Rate will be determined by a major market maker in municipal securities, as the quotation agent, based upon the rate per annum equal to the semiannual equivalent yield to maturity of those tax-exempt general obligation bonds rated in the highest rating category by Moody's and Standard & Poor's with a maturity date equal to the stated maturity date of such Series 2007 A Bonds having characteristics (other than the ratings) most comparable to those of such Series 2007 A Bonds in the judgment of the quotation agent. The quotation agent's determination of the Applicable Tax-Exempt Municipal Bond Rate is final and binding in the absence of manifest error.

Mandatory Redemption. The Series 2007 A Bonds (or any portions thereof in integral multiples of $5,000 each) maturing on April 1 in the years 2025, 2027 and 2030 (the "Series 2007 A Term Bonds"), are also subject to mandatory sinking fund redemption prior to their maturity date at a redemption price equal to the principal amount of such Series 2007 A Term Bonds, plus accrued interest on April 1 of each year as shown in the following tables:

Series 2007 A Term Bonds Due April 1, 2025

Mandatory Sinking Fund Redemption Date	Principal Amount
April 1, 2024	$2,735,000
April 1, 2025*	2,880,000

*Final Maturity

Series 2007 A Term Bonds Due April 1, 2027

Mandatory Sinking Fund Redemption Date	Principal Amount
April 1, 2026	$3,030,000
April 1, 2027*	3,190,000

*Final Maturity

Series 2007 A Term Bonds Due April 1, 2030

Mandatory Sinking Fund Redemption Date	Principal Amount
April 1, 2028	$3,360,000
April 1, 2029	3,535,000
April 1, 2030*	3,720,000

*Final Maturity

Under the Indenture, selection of Term Bonds to be redeemed will be made by lot by the Trustee. In accordance with DTC's standard practices and its agreement with the Bond Bank, DTC and the Direct Participants will make this selection so long as the Series 2007 A Bonds are in book entry form. The principal amount of Term Bonds to be redeemed on each date set forth above will be subject to reduction by the principal amount of any such Term Bonds of the same maturity which, not less than 45 days prior to a sinking fund redemption date, have been theretofore surrendered to or purchased by the Trustee for cancellation and canceled, all in accordance with the Indenture. The principal amount of any Term Bonds so surrendered and canceled in excess of the principal amount scheduled for redemption in any one year will be credited against future redemption obligations and the principal amounts of Term Bonds subject to sinking fund redemption at such times will be accordingly reduced.

Cash Flow Certificate. Prior to any optional redemption of any Series 2007 A Bonds, the Bond Bank will be required under the Indenture to deliver or to cause to be delivered to the Trustee a Cash Flow Certificate (as defined in Appendix E) to the effect that, giving effect to such redemption, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Notice of Redemption. In the case of redemption of the Series 2007 A Bonds, notice of the call for any such redemption identifying the Series 2007 A Bonds, or portions of fully registered Series 2007 A Bonds, to be redeemed will be given by mailing a copy of the redemption notice by first class, registered or certified mail not less than 30 days nor more than

45 days prior to the date fixed for redemption to the Registered Owner of the Series 2007 A Bonds to be redeemed at the address shown on the registration books of the Trustee. Failure to give such notice by mailing, or any defect thereof with respect to any Series 2007 A Bonds, shall not affect the validity of any proceedings for the redemption of any other Series 2007 A Bonds. All Series 2007 A Bonds so called for redemption shall cease to bear interest on the specified redemption date, shall no longer be protected by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture, provided funds for their redemption are on deposit at the place of payment at that time.

Redemption Payments. Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the Redemption Price of the Series 2007 A Bonds called, together with accrued interest on the Series 2007 A Bonds to the redemption date.

Book-Entry-Only System

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2007 A Bonds. The Series 2007 A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2007 A Bond will be issued for each maturity of the Series 2007 A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at **www.dtcc.com** and **www.dtc.org**.

3. Purchases of the Series 2007 A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2007 A Bonds, except in the event that use of the book-entry system for the Series 2007 A Bonds is discontinued.

4. To facilitate subsequent transfers, all Series 2007 A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2007 A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007 A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2007 A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2007 A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2007 A Bond documents. For example, Beneficial Owners of Series 2007 A Bonds may wish to ascertain that the nominee holding the Series 2007 A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2007 A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2007 A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts, the Series 2007 A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. The principal and interest payments on the Series 2007 A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Bank or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), Trustee, or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. The payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Series 2007 A Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, the Series 2007 A Bond certificates are required to be printed and delivered.

10. The Bond Bank may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, the Series 2007 A Bonds certificates will be printed and delivered.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE BOND BANK BELIEVES TO BE RELIABLE, BUT THE BOND BANK TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

Revision of Book-Entry-Only System

In the event that either (i) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Series 2007 A Bonds or (ii) the Bond Bank elects to discontinue its use of DTC as a clearing agency for the Series 2007 A Bonds, then the Bond Bank and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Series 2007 A Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Series 2007 A Bonds and to transfer the ownership of each of the Series 2007 A Bonds to such person or persons, including any other clearing agency, as the holder of such Series 2007 A Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the Series 2007 A Bonds, will be paid by the Bond Bank.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 A BONDS

Generally

The Series 2007 A Bonds will be issued under and secured by the Indenture. The principal of and interest on any and all of the Series 2007 A Bonds, together with any Refunding Bonds that may be authorized and issued by the Bond Bank under the Indenture on a parity with the Series 2007 A Bonds (collectively, the "Bonds"), are payable from those revenues and funds of the Bond Bank which, together with the Series 2007 Note (as hereinafter defined) and all other qualified obligations of the Series 2007 A Qualified Entity (collectively, the "Qualified Obligations") pledged under the Master Indenture (as hereinafter defined) to the Bond Bank, are pledged pursuant to the Indenture for the benefit of the owners of the Bonds equally, ratably and without priority.

Neither the faith, credit nor taxing power of the State of Indiana (the "State") or any political subdivision thereof including any Qualified Entity (as defined in Appendix E), is pledged to the payment of the principal of and interest on any of the Bonds. The Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State or of any political subdivision thereof including any Qualified Entity. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from any other obligations issued by the Bond Bank. The sources of payment of and security for the Bonds are more fully described below.

Under the Indenture, the Bonds are secured by a pledge to the Trustee of the Qualified Obligations and all principal and interest payments made or required to be made on the Qualified Obligations (the "Qualified Obligation Payments"), as described therein. In addition, the Indenture pledges to the payment of the Bonds all proceeds of the Trust Estate, including without limitation all cash and securities held in the Funds and Accounts created by the Indenture, except for the Rebate Fund and the accounts thereunder, together with investment earnings thereon and proceeds thereof (except to the extent transferred to the Rebate Fund from such Funds and Accounts under the Indenture), and all other funds, accounts and moneys to be pledged by the Bond Bank to the Trustee as security under the Indenture, to the extent of any such pledge. Under the Act and Indiana Code 5-1-14-4, such pledge is valid and binding from and after the date of delivery of the Bonds under the Indenture and such Qualified Obligations and the Qualified Obligation Payments thereon shall be immediately subject to the lien of such pledge without any physical delivery of the payments or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Bond Bank, irrespective of whether such parties have notice thereof. The Qualified Obligation Payments with respect to the Series 2007 Note have been structured as of the date of issuance of the Series 2007 A Bonds to be sufficient along with earnings thereon, and other money in the Funds and Accounts under the Indenture and the earnings thereon, to pay the principal of and interest on the Series 2007 A Bonds when due.

Proceeds of the Series 2007 A Bonds will be used by the Bond Bank to make a loan to the Qualified Entity pursuant to a Loan Agreement dated as of May 1, 2007 (the "Loan Agreement"), by and between the Bond Bank and the Qualified Entity. The Qualified Entity's

obligation to make payments under the Loan Agreement is evidenced and secured by its Series 2007 Note (the "Series 2007 Note"), which is issued under and secured by the terms of a Master Trust Indenture dated as of March 15, 1992, as previously supplemented and as further supplemented by the Supplemental Master Trust Indenture No. 3 dated as of May 1, 2007 (as so supplemented, the "Master Indenture"), between the Qualified Entity and The Bank of New York Trust Company, N.A., as successor trustee (the "Master Trustee"). The sources of payment on the Series 2007 Note are further described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS" and Appendices B and D.

The Indenture provides that in order to further secure the payment of principal of and interest on the Series 2007 A Bonds, the Bond Bank will establish thereunder a debt service reserve fund (the "Debt Service Reserve Fund"), which will be funded by the purchase of a debt service reserve fund surety bond (the "Debt Service Reserve Fund Surety Bond") issued by the Series 2007 A Bond Insurer. The amount required to be on deposit in the Debt Service Reserve Fund as of any given date equals the Debt Service Reserve Requirement (as defined in Appendix E). See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 A BONDS -- Debt Service Reserve Fund" and "DEBT SERVICE RESERVE FUND SURETY BOND" for further discussion of the Debt Service Reserve Fund.

The Act provides that the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank prior to December 1 of any year, as may be necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any fiscal year of the Bond Bank ("Fiscal Year") in which the amount in the Debt Service Reserve Fund is projected to be less than the Debt Service Reserve Requirement. However, nothing in these provisions or in any other provision of the Act creates a debt or an obligation on the part of the State to make any payments or appropriations to or for the use of the Bond Bank. See the captions "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 A BONDS – State Appropriations Mechanism" and "GENERAL RISKS TO THE OWNERS OF THE SERIES 2007 A BONDS.

Provisions for Payment of the Series 2007 Note

As more fully described in Appendices B and D hereto, to secure its obligations under the Loan Agreement, the Series 2007 A Qualified Entity will issue to the Bond Bank pursuant to the Master Indenture a Series 2007 Note in a principal amount equal to the aggregate principal amount of the Series 2007 A Bonds. All payments by the Qualified Entity of the principal of, premium, if any, and interest on the Series 2007 Note will be made to the Trustee and each payment will be made on or before the date when the corresponding payment is required to be made on the related Series 2007 A Bonds. The principal of, premium, if any, and interest payments on the Series 2007 Note correspond, respectively, to the payments of principal of, premium, if any, and interest on the Series 2007 A Bonds. The Series 2007 Note will at all times be in fully registered form and will be non-transferable except as required to effect the assignment thereof to the Trustee and any successor trustee. *The Series 2007 Note and all other Notes (as defined in Appendix E) issued under the Master Indenture, including the Series 2002*

Note (as hereinafter defined), whether issued to the Bond Bank or other creditors, will be equally and ratably secured under the Master Indenture.

The Series 2007 A Qualified Entity and any future members of the Obligated Group (the "Obligated Group") will grant a security interest in their Net Revenues (as defined below) to the Master Trustee as security for the making of payments on the Notes, including the Series 2007 Note. Except as provided below, the Obligated Group will not grant any mortgage or security interest in their property to the Master Trustee. "Net Revenues" are all cash and other receipts, present and future accounts, receivables, contracts and contract rights (including particularly those between the Series 2007 A Qualified Entity and each other member of the Obligated Group and the State or any other state with respect to Medicaid; the Obligated Group and third-party insurers of any patients of the Obligated Group; and the Obligated Group and the United States of America with respect to Medicare and all other equivalent insurance programs, or any state or federal program substituted in lieu thereof); general intangibles, documents and instruments, which are now owned or hereafter acquired by the Obligated Group, and all proceeds therefrom, whether cash or non-cash, and which are derived by the Obligated Group from the conduct of all or any part of their respective operations; and all revenue and income of the Obligated Group from whatever source derived, including income from the principal of investments, leases and income received from leases, and grants received by the Obligated Group from any source, but excluding only Restricted Property (as defined in Appendix E) of the Obligated Group. Notwithstanding the foregoing, only amounts in excess of Total Expenses (as defined below) (other than depreciation, amortization, interest and certain non-cash items, including any gain or loss resulting from the extinguishment of Indebtedness (as defined in Appendix E), sale, exchange, or disposition of capital assets or a change in accounting principles) shall constitute Net Revenues. "Total Expenses" are total operating and nonoperating expenses of the Series 2007 A Qualified Entity or any other Obligated Issuer, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions and pension fund expenses not requiring, in the opinion of an independent actuary, cash contributions thereof.

Enforcement of the Series 2007 Note

As owner of the Series 2007 Note, the Bond Bank has available to it all remedies available to owners or holders of securities issued by the Series 2007 A Qualified Entity. The Act provides that upon the sale and the delivery of any Qualified Obligations to the Bond Bank, the Series 2007 A Qualified Entity will be deemed to have agreed that all statutory defenses to nonpayment are waived in the event that the Series 2007 A Qualified Entity fails to pay principal of or interest on such Qualified Obligations when due.

The Series 2007 A Qualified Entity's obligations under the Loan Agreement are evidenced by the Series 2007 Note, which is in turn secured under the Master Indenture. The practical realization of value upon any default will depend upon the exercise of various remedies specified in the Indenture, the Loan Agreement and the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay. Under existing law, the remedies specified by the Indenture, the Loan Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to

order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Series 2007 A Bonds will contain customary qualifications as to the enforceability of the various legal instruments by limitations imposed by the state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, fraudulent conveyance or other laws affecting the enforcement of creditors' rights generally. See "PARTICULAR RISKS ASSOCIATED WITH THE SERIES 2007 A QUALIFIED ENTITY" herein.

The Bond Bank has also determined to consult with the Series 2007 A Qualified Entity, as necessary from time to time, with regard to the action or actions needed to be taken by the Series 2007 A Qualified Entity to preserve the exclusion of the interest on the Series 2007 A Bonds from the gross income of the holders of the Series 2007 A Bonds.

The Bond Bank will monitor the compliance and consult regularly with the Series 2007 A Qualified Entity with respect to their respective requirements under the Series 2007 Note, including the making of Qualified Obligation Payments to the Bond Bank.

Additional Parity Indebtedness

The Series 2007 Note will be issued by the Series 2007 A Qualified Entity under the Master Indenture on a parity with the Series 2007 A Qualified Entity's Series 2002 Note which will be outstanding on the date of issuance of the Series 2007 Bonds in the aggregate principal amount of $7,075,000 (the "Series 2002 Note"). Under certain conditions, the Series 2007 A Qualified Entity may issue additional Notes or incur other additional indebtedness or obligations under the Master Indenture on a parity with the Series 2007 Note. See “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Restrictions as to Incurrence of Additional Indebtedness” in APPENDIX D hereto.

Debt Service Reserve Fund

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund in which there is to be deposited or transferred:

(i) Moneys available to the Bond Bank required to be deposited in the Debt Service Reserve Fund by the terms of the Indenture (or any future Bond proceeds or other money required by a Supplemental Indenture or resolution of the Bond Bank);

(ii) All money required to be transferred to the Debt Service Reserve Fund for the replenishment thereof from another Fund or Account under the Indenture;

(iii) All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and

(iv) Any other available money, funds or a Credit Facility that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

Under the Indenture, the Debt Service Reserve Fund is required to contain an amount equal to the Debt Service Reserve Requirement. The Bond Bank will satisfy the Debt Service Reserve Requirement with respect to the Series 2007 A Bonds by depositing a Debt Service Reserve Fund Surety Bond in the Debt Service Reserve Fund. See "DEBT SERVICE RESERVE FUND SURETY BOND."

State Appropriations Mechanism

The Act authorizes, subject to the prior review of the State Budget Committee and the approval of the State Budget Director (which review and approval have been deemed conducted and received, respectively, with respect to the Series 2007 A Bonds), the Indenture to provide that the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank to the State General Assembly prior to December 1 of any year, as may be necessary to restore the Debt Service Reserve Fund to the amount then required to be on deposit in the Debt Service Reserve Fund to the Reserve Requirement. The Indenture requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any fiscal year of the Bond Bank ("Fiscal Year") in which the amount in the Debt Service Reserve Fund is projected to be less than the Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately $466,335,000 in separate program obligations secured by debt service reserve funds, which are also eligible for annual appropriations from the General Assembly.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of principal of or interest on the Bonds.

AGREEMENT WITH THE STATE

Under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank, including the Series 2007 A Bonds, not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

FINANCIAL GUARANTY INSURANCE POLICY

The following information has been furnished by Ambac Assurance Corporation ("Ambac Assurance" or the "Series 2007 A Bond Insurer") for use in this Official Statement. Reference is made to APPENDIX F for a specimen of the Series 2007 A Bond Insurer's Financial Guaranty Insurance Policy.

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty policy (the "Financial Guaranty Insurance Policy") relating to the Series 2007 A Bonds effective as of the date of issuance of the Series 2007 A Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series 2007 A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The Financial Guaranty Insurance Policy will extend for the term of the Series 2007 A Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2007 A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series 2007 A Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Series 2007 A Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2007 A Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a Series 2007 A Bond which has become Due for Payment and which is made to a holder of a Series 2007 A Bond by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such holder will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than nonpayment, as defined in the policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;

2. payment of any redemption, prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Series 2007 A Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2007 A Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2007 A Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such Series 2007 A Bond and will be fully subrogated to the surrendering holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands with admitted assets of approximately $10,015,000,000 (unaudited) and statutory capital of approximately $6,371,000,000 (unaudited) as of December 31, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc., and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal

income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Series 2007 A Bonds.

Ambac Assurance makes no representation regarding the Series 2007 A Bonds or the advisability of investing in the Series 2007 A Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information may be inspected and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following document filed by the Company with the SEC (File No. 1-10777) is incorporated by reference in this Official Statement.

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information."

DEBT SERVICE RESERVE FUND SURETY BOND

Debt Service Reserve Fund Ambac Assurance Surety Bond

The Indenture requires the establishment of a Debt Service Reserve Fund in an amount equal to $3,920,650. The Indenture authorizes the Obligor to obtain a Surety Bond in place of fully funding the Debt Service Reserve Fund. Accordingly, application has been made to Ambac Assurance for the issuance of a Surety Bond for the purpose of funding the Debt Service Reserve Fund. The Series 2007 A Bonds will only be delivered upon the issuance of such Surety Bond. The premium on the Surety Bond is to be fully paid at or prior to the issuance and delivery of the Series 2007 A Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the Series 2007 A Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the Series 2007 A Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Obligor is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Obligor is subordinate to the Obligor's obligations with respect to the Series 2007 A Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Debt Service Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Indenture provides that the Debt Service Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond shall be paid from first available Revenues; (ii) after all such amounts are paid in full, amounts necessary to fund the Debt Service Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond shall be deposited from next available Revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent.

GENERAL RISKS TO OWNERS OF THE SERIES 2007 A BONDS

General

The ability of the Bond Bank to pay principal of, and interest on, the Series 2007 A Bonds depends primarily upon the receipt by the Bond Bank of Qualified Obligation Payments pursuant to the Series 2007 Note, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments. Except for the Debt Service Reserve Fund, there is no source of funds which is required to makeup for any deficiencies in the event of one or more defaults by the Series 2007 A Qualified Entity in such payments on the Series 2007 Note. There can be no representation or assurance that the Series 2007 A Qualified Entity will receive sufficient revenues or otherwise have sufficient funds available to make its required payments on the Series 2007 Note. The receipt of such revenues by any Series 2007 A Qualified Entity is subject to, among other things, future economic and demographic conditions, actions by creditors, and other conditions which are variable and not certain of prediction. See "PARTICULAR RISKS ASSOCIATED WITH THE SERIES 2007 NOTE" below. For a more detailed description of the Series 2007 Note and the conditions upon which additional Notes or Guaranties may be issued by the Series 2007 A Qualified Entity, see Appendices B and D. For a description of procedures for providing for the payment of Qualified Obligation Payments under the Series 2007 Note, see the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 A BONDS -- Provisions for Payment of the Series 2007 Note.

The State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund (see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 A BONDS - State Appropriations Mechanism”). However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 30, unless extended by a special session called by the Governor, and there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the Series 2007 A Bonds be deemed to be a debt or obligation of the State. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 A BONDS - State Appropriations Mechanism.”

Tax Exemption

The Bond Bank and the Series 2007 A Qualified Entity have covenanted under the Indenture and Loan Agreement, respectively, to take all actions and not to fail to take any actions required to assure the continuing exclusion of interest on the Series 2007 A Bonds from gross income for federal income tax purposes. Failure by the Bond Bank or the Series 2007 Qualified Entity to comply with such covenants could cause the interest on the Series 2007 A Bonds to be

taxable retroactive to the date of issuance. However, the interest on the Series 2007 Note could become taxable in the event that the Series 2007 A Qualified Entity fails to comply with certain of such covenants, including without limitation the covenant to rebate or cause to be rebated, if necessary, to the United States government all arbitrage earnings with respect to the Series 2007 Note under certain circumstances and the covenant to take all actions and to refrain from such actions as may be necessary to prevent the Series 2007 Note from being deemed to be a "private activity bond" under the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2007 A Bonds and any applicable regulations promulgated thereunder (the "Code"). Such an event could in turn adversely affect the exempt status of the interest on all of the Series 2007 A Bonds retroactive to the date of issuance. See the caption "TAX MATTERS." The Bond Bank is not aware of any circumstances that would cause the interest on the Series 2007 Note to be includable in gross income for federal income tax purposes under the Code, but has not undertaken any investigation in connection with this Official Statement.

Limited Remedies

The remedies available to the Trustee, to the Bond Bank or to the owners of the Series 2007 A Bonds upon the occurrence of an Event of Default under the Indenture or under the terms of the Series 2007 Note are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the "United States Bankruptcy Code"), the remedies provided in the Indenture and the Series 2007 Note may not be readily available or may be limited.

Financial Guaranty Insurance Policy

The Series 2007 A Bond Insurer has issued the Financial Guaranty Insurance Policy, guaranteeing the scheduled payment of the principal of the Series 2007 A Bonds due at maturity, but not as a result of the acceleration thereof (unless consented to by the Series 2007 A Bond Insurer), and interest on the Series 2007 A Bonds due on the scheduled interest payment dates therefor. A form of the Series 2007 A Bond Insurance Policy is attached hereto as Appendix F. Certain information with respect to the Series 2007 A Bond Insurer is set forth under the caption "FINANCIAL GUARANTY INSURANCE POLICY" herein. Such information was provided by the Series 2007 A Bond Insurer and no representation is made as to the adequacy or the accuracy thereof.

So long as the Series 2007 A Bond Insurer performs its obligations under the Financial Guaranty Insurance Policy, the Series 2007 A Bonds cannot be accelerated without the prior written consent of the Series 2007 A Bond Insurer. Furthermore, so long as the Series 2007 A Bond Insurer performs its obligations under the Financial Guaranty Insurance Policy, the Series 2007 A Bond Insurer may direct any remedies that the Series 2007 A Bondholders may exercise under the Indenture.

In the event that the Series 2007 A Bond Insurer is unable to make payments of principal of and interest on the Series 2007 A Bonds as such payments become due, the Series 2007 A Bonds are payable solely from moneys received by the Trustee as set forth in the Indenture.

In the event that the Series 2007 A Bond Insurer is required to pay scheduled principal of or interest on the Series 2007 A Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Series 2007 A Bonds.

Owners of the Series 2007 A Bonds should note that, while the Financial Guaranty Insurance Policy will insure payment of the principal amount (but not any premium) paid to any Series 2007 A Bondholder in connection with the optional or extraordinary optional redemption of any Series 2007 A Bonds which is recovered from such Bondholder as a voidable preference under applicable bankruptcy law, such amounts will be repaid by the Series 2007 A Bond Insurer to such Series 2007 A Bondholder only at times and in the amounts as would have been due absent such redemption.

PARTICULAR RISKS ASSOCIATED WITH THE SERIES 2007 A QUALIFIED ENTITY

The Series 2007 A Bonds will be payable by the Bond Bank solely from amounts payable under the Loan Agreement and the Series 2007 Note. See "SECURITY FOR THE BONDS." The ability of the Obligated Group to realize revenues in amounts sufficient to pay debt service on the Series 2007 A Bonds when due is affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No representation or assurance is given or can be made that revenues will be realized by the Obligated Group in amounts sufficient to pay debt service when due on the Series 2007 A Bonds and the Notes and other obligations of the Obligated Group. None of the provisions of the Indenture, the Loan Agreement or the Master Indenture provide any assurance that the Notes and other obligations of the Obligated Group will be paid as and when due if the Obligated Group becomes unable to pay its debts as they come due or the Obligated Group otherwise becomes insolvent.

The receipt of future revenues by the Members of the Obligated Group is subject to, among other factors, federal and state laws, regulations and policies affecting the health care industry and the policies and practices of major managed care providers, private insurers and other third-party payors and private purchasers of health care services. The effect on the Obligated Group of recently enacted laws and regulations and recently adopted policies, and of future changes in federal and state laws, regulations and policies, and private policies, cannot be determined at this time. Loss of established managed care contracts of the Obligated Group could also adversely affect its future revenues.

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions, including demand for health care services, the availability and affordability of insurance, including without limitation, malpractice and casualty insurance, availability of nursing and other professional personnel, the capability of management

of the Obligated Group, the receipt of grants and contributions, referring physicians' and self-referred patients' confidence in the Obligated Group, economic and demographic developments in the United States, the State of Indiana and the service area of the members of the Obligated Group, and competition from other health care institutions in the service areas, together with changes in rates, costs, third-party payments and governmental laws, regulations and policies, may adversely affect revenues and expenses and, consequently, the ability of the Obligated Group to make payments under the Notes and other obligations of the Obligated Group.

Additional Debt

Except as described above under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 A BONDS—Provisions for Payment of the Series 2007 Note" and in APPENDIX D, "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Restrictions as to Incurrence of Additional Indebtedness," the Master Indenture does not limit the issuance of additional Notes and other obligations on a parity with the Series 2007 Note and the other outstanding Notes or other obligations or the incurrence of additional indebtedness by the Obligated Group. The Obligated Group has previously issued the Series 2002 Note, which is secured by the Master Indenture on a parity with the Series 2007 Note. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 A BONDS—Additional Parity Indebtedness" above.

Federal Laws and Regulations

Medicare and Medicaid Programs; General

Medicare and Medicaid are the commonly used names for hospital reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is jointly funded by federal and state government. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older or disabled, or qualify for the End Stage Renal Disease Program. Medicaid is designed to pay providers for care given to the medically indigent, is funded by federal and state appropriations, and is administered by the individual states. Hospital benefits are available under each participating state's Medicaid program, within prescribed limits, to persons meeting certain minimum income or other eligibility requirements including children, the aged, the blind and/or the disabled.

Health care providers have been and will be affected significantly by changes in the last several years in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted, and have caused severe reductions in reimbursement from the Medicare program. Specifically, the Balanced Budget Act of 1997 (the "BBA") which was signed into law on August 5, 1997, was intended to decrease significantly reimbursement or payment to health care providers. Congress has also affected reimbursement levels to providers in the Medicare and Medicaid and State Children's Health Insurance Program Balanced Budget Refinement Act of 1999 ("BBRA") and

the Benefits Improvement and Protection Act of 2000 ("BIPA"). The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "2003 Act") was signed into law on December 8, 2003. The 2003 Act, among other things described below, generally increased reimbursement levels. Most recently, the Deficit Reduction Act of 2005 was signed into law on February 8, 2006, which, among other things, is expected to reduce federal entitlements through 2015, impacting both Medicare and Medicaid. The following is a summary of the Medicare and Medicaid programs and certain risk factors related thereto.

Medicare

General

Approximately 38% of the gross patient service revenues of the Series 2007 A Qualified Entity for the fiscal year ended December 31, 2006, were derived from Medicare. Medicare pays acute care hospitals for most services provided to inpatients under a payment system known as the "Prospective Payment System" or "PPS" pursuant to which hospitals are paid for services based on predetermined rates. Separate PPS payments are made for inpatient operating costs and inpatient capital costs. Such payments are not based upon a hospital's actual costs of providing service.

Inpatient Operating Costs

Acute care hospitals that participate in Medicare are paid on the basis of PPS, on a per-discharge basis at fixed rates based on the Diagnosis Related Group ("DRG") to which each Medicare patient is assigned. The DRG is determined by the diagnoses, procedures and other factors for each particular Medicare inpatient stay. The amount to be paid for each DRG is established prospectively by the Centers for Medicare and Medicaid Services ("CMS") (formerly, The Health Care Financing Administration), an agency of the United States Department of Health and Human Services ("HHS"), and is not, with certain exceptions, related to a hospital's actual costs or variations in service or length of stay.

The BBA also has affected DRG reimbursement by reducing it to, in effect, a per diem rate for a select group of DRGs when the patient is transferred to almost any post acute care setting prior to the geometric mean length of stay for the appropriate DRG. Affected by this rule are transfers to post acute care settings such as rehabilitation, skilled nursing facilities, psychiatric services and home health. This rule, which now applies to 30 DRGs (as opposed to 10, the number of DRGs affected prior to October 1, 2003), could adversely affect the Medicare reimbursement of the Series 2007 A Qualified Entity because hospitals transferring patients who are classified under one of the designated DRGs to a post-acute setting prior to the geometric mean length of stay for that DRG will receive less than the full DRG rate for those patients.

For certain Medicare beneficiaries who have unusually long or costly hospital stays ("outliers"), CMS will provide additional payments above those specified for the DRG. To determine whether a case qualifies for outlier payments, hospital-specific cost-to-charge ratios are applied to the total covered charges for the case. Operating and capital costs for the case are calculated separately by applying separate operating and capital cost-to-charge ratios and

combining these costs to compare them with a defined fixed-loss outlier threshold for the specific DRG.

On June 9, 2003, CMS promulgated a final regulation revising how Medicare outlier payments for inpatient services are calculated. The regulation closed certain loopholes through which some hospitals manipulated their cost-to-charge ratios in order to increase their Medicare outlier payments. Hospitals receiving a large proportion of their Medicare revenues as outlier payments have an increased likelihood of triggering a review by CMS, not only of their outlier payments, but also of all of their billing practices. As part of its 2005 Work Plan, the HHS Office of Inspector General continued to evaluate whether claims for outlier payments are submitted in accordance with Medicare law and regulations. Although the Series 2007 A Qualified Entity believes that its cost-to-charge ratios were not manipulated in order to increase Medicare outlier payments, any such investigation or suit involving the outlier payments of the Series 2007 A Qualified Entity could have a material adverse impact on the financial condition and the results of operations of the Series 2007 A Qualified Entity.

While PPS payments are adjusted annually using an inflation index, based on the change in a "market basket" of hospital costs of providing health care services, there is no assurance that future updates in the PPS payments will keep pace with the increases in the cost of providing hospital services. If a hospital incurs costs in treating Medicare inpatients which exceed the DRG level of reimbursement plus any outlier payments, the hospital will experience a loss from such services. Other third-party payers have begun implementing their own limitations on reimbursement payable to hospitals to avoid "cost-shifting," that is, the practice of offsetting losses from Medicare patients by increasing charges to other payors.

Inpatient Capital Costs

Medicare payments for inpatient capital costs (e.g., depreciation, interest, taxes and similar expenses for plant and equipment), are based upon a PPS system similar to the inpatient operating cost PPS. A separate per-case standardized amount is paid for capital costs, adjusted to take into account certain hospital characteristics and weighted by DRG. Such capital costs are reimbursed exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to certain adjustments specific to the hospital.

There can be no assurance that the prospective payment for capital costs will be sufficient to cover the actual capital-related costs of the Series 2007 A Qualified Entity allocable to Medicare patient stays or to provide adequate flexibility in meeting the future capital needs of the Series 2007 A Qualified Entity.

Skilled Nursing Facility Services

Medicare covers nursing services furnished by or under the supervision of a registered professional nurse, as well as physical, occupational, and speech therapy provided by skilled nursing facilities ("SNFs") that are certified for participation in the Medicare program. Medicare coverage of SNF services is available only if the patient is hospitalized for at least three consecutive days, the need for SNF services is related to the reason for the hospitalization, and the patient is admitted to the SNF within 30 days following discharge from a Medicare

participating hospital. Medicare coverage of SNF services is limited to 100 days per benefit period after discharge from a Medicare participating hospital or critical access hospital. The patient must pay coinsurance amounts for the twenty-first and each of the remaining days of covered care per benefit period.

Medicare payments for SNF services are paid on a case-mix adjusted per diem PPS for all routine, ancillary and capital related costs. The prospective payment for SNF services is based solely on the adjusted federal per diem rate. A proposed CMS regulation sets forth a schedule of prospective payment rates applicable to Medicare Part A SNF services for federal fiscal year 2007 and will reflect a decrease from the payment rates applicable for federal fiscal year 2006. There can be no assurance that the SNF PPS rates will be sufficient to cover the actual costs of providing SNF services.

SNFs are also required to perform consolidated billing for items and services furnished to patients during a Part A covered stay and therapy services furnished during Part A and Part B covered stays. The consolidated billing requirement essentially confers on the SNF itself the Medicare billing responsibility for the entire package of care that its residents receive in these situations. The BBA also affected SNF payments by requiring that post-hospitalization SNF services be "bundled" into the hospital's DRG payment in certain circumstances. Where this rule applies, the hospital and the SNF must, in effect, divide the payment which otherwise would have been paid to the hospital alone for the patient's treatment, and no additional funds are paid by Medicare for SNF care of the patient. At present this provision applies to a limited number of DRGs, but already is apparently having a negative effect on SNF utilization and payments, either because hospitals are finding it difficult to place patients in SNFs which will not be paid as before or because hospitals are reluctant to discharge the patients to SNFs and lose part of their payment. It is possible that the bundling requirement could be extended to more DRGs in the future, increasing the negative impact on SNF utilization and payments.

There is no guarantee that SNF prospective payment rates, as they may change from time to time, will cover the actual costs of the Series 2007 A Qualified Entity for providing skilled nursing services to Medicare patients. In addition, there is no assurance that the Series 2007 A Qualified Entity will be fully reimbursed for all services for which it bills through consolidated billing.

Costs of Medical Education

Medicare pays for costs associated with both direct and indirect medical education (including the salaries of residents and teachers and other overhead costs directly attributable to approved medical education programs for training residents, nurses and allied health professionals). Payment for direct medical education ("DME") reimburses hospitals for the direct costs of their medical education programs, including faculty and resident salaries and other costs incurred directly in support of the teaching programs. However, prior legislation capped the number of residents for which DME reimbursement would be available to the number of residents that were included in the hospital's cost report ending December 31, 1996. Different rules apply to new residency programs, but the DME amounts payable for new programs are also limited based on certain other factors. Further, there is a debate over whether the training of residents at off-site facilities will impact the payment made to hospitals. The Series 2007 A

Qualified Entity may be negatively impacted if payment for such off-site training of residents is decreased. There can be no assurance that payments to the Series 2007 A Qualified Entity for providing medical education will be adequate to cover the costs attributable to medical education programs.

Inpatient Psychiatric Hospitals

Prior to April 1, 2001, rehabilitation, psychiatric, long term care, children's and cancer hospitals and distinct inpatient rehabilitation and psychiatric units of hospitals were exempt from the PPS. As a result, providers of these services were paid on the basis of the cost of, or a portion of the cost of, providing such service. As of January 1, 2002, all inpatient services furnished by a hospital enrolled in the Medicare program as a rehabilitation hospital or by a rehabilitation unit of a hospital are reimbursed by Medicare on a prospective payment system specifically established for such hospitals and units. PPS for inpatient psychiatric services was scheduled to be implemented for cost reporting periods beginning after October 1, 2002. A final rule replacing the reasonable cost-based system then in effect was promulgated on November 15, 2004 and took effect on January 1, 2005. The new rule provides for a three-year phase-in period. According to CMS, the new rule affects about 2,000 inpatient psychiatric hospitals and certified psychiatric units in general acute care hospitals. The Series 2007 A Qualified Entity (as described in APPENDIX B hereto) has psychiatric units. While the effect of these changes on the Series 2007 A Qualified Entity cannot be predicted at this time, proposed new prospective payment systems could have a material adverse effect on the financial condition or results of operations of the Series 2007 A Qualified Entity if its costs for providing such services exceed the reimbursement paid under the respective prospective payment systems.

Cost of Outpatient Services

The BBA provided authority for CMS to implement PPS for hospital outpatient services, certain Part B services furnished to hospital inpatients who have no Part A coverage, and partial hospitalization services furnished by community mental health centers ("Outpatient PPS"). All services paid under the new Outpatient PPS are classified into groups called Ambulatory Payment Classifications or "APCs." Services in each APC are similar clinically and in terms of the resources they require. A payment rate is established for each APC which is based on national median hospital costs (including operating and capital costs) adjusted for variations in hospital labor costs across geographic areas. Depending on the services provided, hospitals may be paid for more than one APC for an encounter. There can be no assurance that payments under Outpatient PPS will be sufficient to cover the actual costs of providing such services.

Physician Payments

Reimbursement for certain physician services is based on a Medicare fee schedule based on a "resource-based relative value scale" ("RBRVS"). The RBRVS fee schedule establishes payment amounts for all physician services, including services provided by hospital employed physicians (other than anesthesiologists) and is subject to annual updates. There can be no assurance that the payments for physician services will be sufficient to cover the actual costs of providing such services.

Hospice and Outpatient Renal Dialysis Reimbursement

Hospice services are reimbursed on a cost-based prospective payment method, subject to a "cap" amount. CMS establishes daily payment amounts, which are adjusted to reflect local differences in wages. Under the BBA and BBRA, the amounts paid to the hospice program are less than the market basket increase for the fiscal year involved.

Renal dialysis services are reimbursed on the basis of prospective reimbursement, though different rates are paid for hospital-based and free-standing facilities, and are adjusted for geographic differences in labor costs. This composite rate is the same regardless of whether the treatment is furnished in the facility or in the patient's home to incentivize home dialysis, and must be accepted by the facility as payment in full for covered outpatient dialysis.

There can be no assurance that the prospective payment amounts for hospice or renal dialysis services provided by the Series 2007 A Qualified Entity will be sufficient to cover the actual costs of providing such services.

Provider-Based Designation

CMS regulations describe the criteria and procedures for determining whether a facility or organization is "provider-based" and thereby treated as part of another Medicare provider, rather than as a freestanding entity. The current regulations impose significantly greater requirements for obtaining provider-based status than was the case under previous regulations, and may lead to reclassification of facilities or departments of the Series 2007 A Qualified Entity currently classified as "provider-based." Proposed CMS regulations would add "rural health clinics" to the list of facilities for which provider-based status is not available. Reclassification of any of the provider-based facilities or departments of the Series 2007 A Qualified Entity could reduce reimbursement under the Medicare program. In addition, in the event that a facility or department that bills for outpatient services as a provider-based entity is found to be out of compliance with the current provider-based regulations, the Series 2007 A Qualified Entity could be liable for Medicare overpayments.

Medicare Conditions of Participation

Hospitals must comply with standards called "Conditions of Participation" in order to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under the Medicare rules, hospitals accredited by the Healthcare Facilities Accreditation Program ("HFAP") are deemed to meet the Conditions of Participation. However, CMS may request that the state agency responsible for approving hospitals on behalf of CMS, conduct a "sample validation survey" of a hospital to determine whether it is complying with the Conditions of Participation. Failure to maintain HFAP accreditation or other noncompliance with the Conditions of Participation could have a material adverse effect on the continued participation in the Medicare and Medicaid programs, and ultimately, the financial condition and results of operations of the Series 2007 A Qualified Entity.

Medicare Audits and Withholds

Hospitals participating in Medicare and Medicaid are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under those programs. Although management of the Corporation believes recorded valuation allowances are adequate for the purpose, any such future adjustments could be material. Both Medicare and Medicaid regulations also provide for withholding payments in certain circumstances. Any such withholding with respect to the Series 2007 A Qualified Entity could have a material adverse effect on the financial condition and results of operations of the Series 2007 A Qualified Entity. In addition, contracts between hospitals and third-party payers often have contractual audit, setoff and withhold language that may cause substantial, retroactive adjustments. Such contractual adjustments also could have a material adverse effect on the financial condition and results of operations of the Series 2007 A Qualified Entity. Management of the Series 2007 A Qualified Entity is not aware of any situation in which a Medicare or other payment is being, or may in the future be, withheld that would materially and adversely affect the financial condition or results of operations of the Series 2007 A Qualified Entity.

Under both Medicare and Medicaid programs, certain health care providers, including hospitals, are required to report certain financial information on a periodic basis, and with respect to certain types of classifications of information, penalties are imposed for inaccurate reports. As these requirements are numerous, technical and complex, there can be no assurance that the Series 2007 A Qualified Entity will avoid incurring such penalties in the future. These penalties may be material and adverse and could include criminal or civil liability for making false claims and/or exclusion from participation in the federal healthcare programs. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act or other federal statutes, subjecting the provider to civil, administrative, or criminal sanctions. The United States Department of Justice has initiated a number of national investigations, including in the State of Indiana, involving proceedings under the federal False Claims Act relating to alleged improper billing practices by hospitals. These actions have resulted in substantial settlement amounts being paid in certain cases.

Management of the Series 2007 A Qualified Entity does not anticipate that Medicare audits or cost report settlements for the Medicare program will materially adversely affect the financial condition or results of operations of the Series 2007 A Qualified Entity, taken as a whole, nor does it believe that any Member of the Obligated Group has improperly submitted claims; however, in light of the complexity of the regulations relating to the Medicare program, and the threat of ongoing investigations as described above, there can be no assurance that significant difficulties will not develop in the future.

Medicare Advantage

Medicare Advantage plans (formerly known as Medicare+Choice Plans prior to the 2003 Act) are alternate insurance products offered by private companies that engage in direct managed care risk contracting with the Medicare program. Under the Medicare Advantage program these private companies agree to accept a fixed, per-beneficiary payment from the Medicare program to cover all care that the beneficiary may require. In recent years, many

private managed care companies discontinued their Medicare+Choice plans. The result has been that the beneficiaries who were covered by the now-discontinued Medicare+Choice have been shifted back into the Medicare fee-for-service program or into a Medicare cost plan.

Future legislation or regulations may be created, to encourage increased participation in the Medicare Advantage program. The effect of such future legislation/regulation is unknown but could materially and adversely affect the Obligated Group.

Medicaid

Medicaid is the joint federal/state program, created under the Social Security Act, by which hospitals receive reimbursement for services provided to eligible infants, children, adolescents and indigent adults. Approximately 5% of the gross patient service revenues of the Series 2007 A Qualified Entity for the fiscal year ended December 31, 2006 were derived from Medicaid.

Payments made to health care providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints.

Indiana Medicaid Program

Since a portion of the Medicaid program's costs in Indiana are paid by the State, the absolute level of Medicaid revenues paid to the Series 2007 A Qualified Entity, as well as the timeliness of their receipt, may be affected by the financial condition of and budgetary factors facing the State. The actions the State could take to reduce Medicaid expenditures to accommodate any budgetary shortfalls include, but are not limited to, changes in the method of payment to hospitals, changes in eligibility requirements for Medicaid recipients and delays of payments due to hospitals. Any such action taken by the State could have a material adverse effect upon the Series 2007 A Qualified Entity's operations and financial results.

Since November 4, 1994, the Indiana Medicaid program has made payments to hospitals using a DRG system that bases payments on patient discharges. Previously, the Indiana Medicaid program reimbursed hospitals for inpatient services on the basis of the hospital's reasonable costs, as determined under Medicare cost reimbursement principles, and limited such reimbursement by allowing increases in the per discharge target rates based upon certain fiscal year inflationary adjustment percentages.

Effective March 1, 1994, the Indiana Medicaid Program adopted a rule establishing an outpatient payment system that reimburses hospitals based upon established fee schedule allowances and rates for surgery groups. Previously, outpatient reimbursement was made on a prospective reimbursement methodology providing a predetermined percentage based upon an aggregate "cost-to-charge" ratio, with no year-end costs settlement. Consequently, no assurance can be given that Medicaid payments received or to be received by the Series 2007 A Qualified

Entity will be sufficient to cover costs for inpatient and outpatient services, debt service obligations or other expenses otherwise eligible for reimbursement.

Like most states, Indiana has implemented managed care programs to serve the Medicaid population as a cost saving strategy for the State. Initiatives currently in place are intended to expand participation in the State sponsored managed care programs. Increased participation may impact hospital reimbursements through the Medicaid programs.

Disproportionate Share Payments

The federal Medicaid law permits states to include a "disproportionate share" adjustment in payments to hospitals in order to compensate those hospitals that serve a disproportionate share of indigent patients. Approximately 1% of the gross patient revenues of the Series 2007 A Qualified Entity for the fiscal year ended December 31, 2006, are represented by gross disproportionate share payments. There is no guarantee that, in the future, the Series 2007 A Qualified Entity will continue to receive distributions at this level.

Federal Regulatory and Contractual Matters

Recent Legislation

The 2003 Act, in addition to adding outpatient prescription drug coverage, makes significant changes to the Medicare program affecting hospitals, and provides certain economic benefits to hospitals over the next 10 years. Among other things, the 2003 Act's hospital-related provisions (i) increase payments to rural providers; (ii) ensure that inpatient PPS payment updates remain at the full market basket, provided hospitals participate in a voluntary CMS-sponsored hospital reporting initiative; (iii) impose an 18-month moratorium on the Stark Law "whole hospital" exception for physician owners of designated "specialty" hospitals (discussed below); (iv) increase home health payments; (v) establish a competitive acquisition program for durable medical equipment beginning in 2007; and (vi) freeze payment rates for durable medical equipment for the three federal fiscal years from September 30, 2004 through September 30, 2006.

While it is believed that the 2003 Act will provide a measure of financial relief to hospitals, it is impossible to predict the effect that the 2003 Act will have on Series 2007 A Qualified Entity, especially given the 2003 Act's length, complexity and long phase-in period, as well as the potential for future amendment and alteration of the benefits provided by the 2003 Act.

In addition, the current trend of federal Medicare legislation and regulation favors the replacement of cost-based, provider-specific reimbursement with prospectively determined national payment rates. The net effect of this trend could be lower revenues that would have a material adverse effect on the future financial condition and results of operations of the Series 2007 A Qualified Entity.

On February 8, 2006, the President signed the Deficit Reduction Act of 2005 ("DRA"). The DRA is expected to generate $39 billion in federal entitlement reductions over the 2006 to 2010 period and $99 billion over the 2006 to 2015 period. The DRA includes net reductions of

$4.8 billion over the next five (5) years and $26.1 billion over the next ten (10) years to Medicaid. Many of the policy changes in the DRA would shift costs to beneficiaries and have the effect of limiting health care coverage and access to services for low-income beneficiaries. The Medicaid reductions in direct spending include the following five major categories: prescription drugs; asset transfer changes for long-term care eligibility; fraud, waste and abuse; cost-sharing and benefit flexibility; and state financing. The DRA also contains provisions involving quality reporting and a reduction in Medicare payments to hospitals that do not report quality-related data, and adjustments and payment methodology for imaging services, ambulatory surgical center services, physician services and therapy services. The DRA also contains provisions encouraging states to enact false claims acts. Under the DRA, if a state has in effect a law relating to false or fraudulent claims that meet the requirements of the DRA, the Federal medical assistance percentage with respect to any amounts recovered under a state action brought under such state false claims law shall be decreased by ten (10) percentage points, thereby entitling the state to retain more of the amounts recovered. This provision may increase state investigations related to Medicaid fraud and abuse.

Anti-Fraud and Abuse Laws

The federal Anti-Kickback statute (the "Anti-Kickback Law") makes it a felony to knowingly and willfully offer, pay, solicit or receive remuneration, directly or indirectly, in order to induce business that is reimbursable under any federal health care program. The statute has been interpreted to cover any arrangement where one purpose of the remuneration was to obtain or pay money for the referral of services or to induce further referrals. Violation of the Anti-Kickback Law may result in imprisonment for up to five years and/or fines of up to $25,000 for each act. In addition, the Office of Inspector General ("OIG") of HHS has the authority to impose civil assessments and fines and to exclude hospitals engaged in prohibited activities from the Medicare, Medicaid, TRICARE (a health care program providing benefits to dependents of members of the uniformed services), and other federal health care programs for not less than five years. In addition to certain statutory exceptions to the Anti-Kickback Law, the OIG has promulgated a number of regulatory "safe harbors" under the Anti-Kickback Law designed to protect certain payment and business practices. A party may seek an advisory opinion to determine whether an actual or proposed arrangement meets a particular safe harbor; however the failure of a party to seek an advisory opinion may not be introduced into evidence to prove that the party intended to violate the provisions of the statute. Failure to comply with a statutory exception or regulatory safe harbor does not mean that an arrangement is unlawful but may increase the likelihood of challenge.

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") created a new program operated jointly by HHS and the United States Attorney General to coordinate federal, state and local law enforcement with respect to fraud and abuse including the Anti-Kickback Law. HIPAA also provides for minimum periods of exclusion from a federal health care program for fraud related to federal health care programs, provides for intermediate sanctions and expands the scope of civil monetary penalties. The BBA expanded the authority of OIG to exclude persons from federal health care programs, increased certain civil and monetary penalties for violations of the Anti-Kickback Law and added a new monetary penalty for persons who contract with a provider that the person knows or should know is excluded from the federal health care programs. Finally, actions which violate the Anti-Kickback Law or similar laws may

also involve liability under the federal civil False Claims Act which prohibits the knowing presentation of a false, fictitious or fraudulent claim for payment to the United States. Actions under the civil False Claims Act may be brought by the United States Attorney General or as a qui tam action brought by a private individual in the name of the government.

Pursuant to the mandates of HIPAA, increased emphasis is being placed on federal investigations and prosecutions of Medicare and Medicaid "fraud and abuse" cases, and increases in personnel investigations and prosecuting such cases have been reported, which will most likely result in a higher level of scrutiny of hospitals and health care providers, including Series 2007 A Qualified Entity.

The management of the Series 2007 A Qualified Entity believes that the Series 2007 A Qualified Entity are in compliance with the Anti-Kickback Law. However, because of the breadth of those laws and the narrowness of the safe harbor regulations, there can be no assurance that regulatory authorities will not take a contrary position or that the Series 2007 A Qualified Entity will not be found to have violated the Anti-Kickback Law.

Stark Law

Another federal law (known as the "Stark Law") prohibits, subject to limited exceptions, a physician who has a financial relationship, or whose immediate family has a financial relationship, with entities (including hospitals) providing "designated health services" from referring Medicare patients to such entities for the furnishing of such designated health services. Stark Law designated health services include physical therapy services, occupational therapy services, radiology or other diagnostic services (including MRIs, CT scans and ultrasound procedures), durable medical equipment, radiation therapy services, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics and prosthetic devices, home health services, outpatient prescription drugs, inpatient and outpatient hospital services and clinical laboratory services. The Stark Law also prohibits the entity receiving the referral from filing a claim or billing for the services arising out of the prohibited referral. The prohibition applies regardless of the reasons for the financial relationship and the referral; that is, unlike the federal Anti-Kickback Law, no finding of intent to violate the Stark Law is required. Sanctions for violation of the Stark Law include denial of payment for the services provided in violation of the prohibition, refunds of amounts collected in violation, a civil penalty of up to $15,000 for each service arising out of the prohibited referral, exclusion from the federal healthcare programs, and a civil penalty of up to $100,000 against parties that enter into a scheme to circumvent the Stark Law's prohibition. Under an emerging legal theory, knowing violations of the Stark Law may also serve as the basis for liability under the False Claims Act. The types of financial arrangements between a physician and an entity that trigger the self-referral prohibitions of the Stark Law are broad, and include ownership and investment interests and compensation arrangements.

The 2003 Act contained an 18-month moratorium on physician self-referrals under Medicare/Medicaid to certain new "specialty hospitals." Prior to the 2003 Act, referrals to specialty hospitals were exempt from the Stark Law's prohibitions under that law's exception for referrals to "whole hospitals," defined to include hospitals engaged in the care of patients with a cardiac or an orthopedic condition, patients receiving a surgical procedure or other specialized

categories of patients designated by the Secretary of HHS. The moratorium did not apply to "specialty hospitals" determined by the Secretary to be "in operation" or "under development" as of November 18, 2003. The moratorium contained in the 2003 Act expired on June 8, 2005. However, CMS delayed certification of new specialty hospitals through January 2006, effectively extending the moratorium, while CMS considered changes to Medicare to address what it perceived as differences between community hospitals and specialty hospitals.

On August 8, 2006, the United States Department of Health and Human Services issued a final report to the Congress pursuant to Section 5006(a)(1) of the DRA recommending a strategic and implementation plan to address issues related to physician investments in specialty hospitals ("Final Report"). Although the Final Report does not recommend prohibiting physician investment in specialty hospitals, it notes the following recommendations: (i) reform payment rates for inpatient hospital services through DRG refinements; (ii) reform payment rates for ambulatory surgery centers; (iii) closer scrutiny of whether entities meet the definition of a hospital; and (iv) review of procedures for approval for participation in Medicare. In an August 8, 2006 press release from CMS, CMS notes that the plan in the Final Report "highlights the importance of moving forward with the major payment reforms to the hospital inpatient prospective and ambulatory surgical center payment systems that have been initiated by CMS. By eliminating the sometimes large difference between payments and costs for some types of hospital care, improper incentives can be eliminated for physicians and hospitals to invest in services simply because they are most profitable." It is unknown at this time what action, if any, Congress will take based upon the Final Report.

On March 26, 2004, CMS issued a second phase of the regulations implementing the Stark Law. Those regulations became effective on July 26, 2004. Those regulations changed the requirements to meet certain Stark Law exceptions and added new exceptions to the Stark Law. At a minimum, the new Stark regulations may require the Series 2007 A Qualified Entity to amend or terminate certain arrangements with physicians or other referral sources to comply with the new regulations' requirements. At this point, it is uncertain whether or how these regulations will affect the financial condition and results of operations of the Series 2007 A Qualified Entity.

Although management of the Series 2007 A Qualified Entity believes that the arrangements of the Series 2007 A Qualified Entity with physicians should not be found to violate the Stark Law, as currently interpreted, there can be no assurance that regulatory authorities will not take a contrary position or that the Series 2007 A Qualified Entity will not be found to have violated the Stark Law. Sanctions under the Stark Law, including exclusion from the Medicare and Medicaid programs, could have a material adverse effect on the financial condition and results of operations of the Series 2007 A Qualified Entity.

False Claims Laws

There are principally three federal statutes addressing the issue of "false claims." First, the Civil False Claims Act imposes civil liability (including substantial monetary penalties and damages) on any person or corporation that (1) knowingly presents or causes to be presented a false or fraudulent claim for payment to the United States government; (2) knowingly makes, uses, or causes to be made or used a false record or statement to obtain payment; or (3) engages

in a conspiracy to defraud the federal government by getting a false or fraudulent claim allowed or paid. Specific intent to defraud the federal government is not required to act with knowledge. This statute authorizes private persons to file qui tam ("Qui Tam") actions on behalf of the United States. Qui Tam actions have been and, in the future, could be brought against the Series 2007 A Qualified Entity's hospitals.

In addition to the Civil False Claims Act, the Civil Monetary Penalties Law authorizes the imposition of substantial civil money penalties against an entity that engages in activities including, but not limited to, (1) knowingly presenting or causing to be presented, a claim for services not provided as claimed or which is otherwise false or fraudulent in any way; (2) knowingly giving or causing to be given false or misleading information reasonably expected to influence the decision to discharge a patient; (3) offering or giving remuneration to any beneficiary of a federal health care program likely to influence the receipt of reimbursable items or services; (4) arranging for reimbursable services with an entity which is excluded from participation from a federal health care program; (5) knowingly or willfully soliciting or receiving remuneration for a referral of a federal health care program beneficiary; or (6) using a payment intended for a federal health care program beneficiary for another use. The Secretary of HHS, acting through the OIG, also has both mandatory and permissive authority to exclude individuals and entities from participation in federal health care programs pursuant to this statute.

Finally, it is a criminal federal health care fraud offense to: (1) knowingly and willfully execute or attempt to execute any scheme to defraud any healthcare benefit program; or (2) to obtain, by means of false or fraudulent pretenses, representations or promises any money or property owned or controlled by any healthcare benefit program. Penalties for a violation of this federal law include fines and/or imprisonment, and a forfeiture of any property derived from proceeds traceable to the offense.

Physician Recruitment

The Internal Revenue Service ("IRS") and OIG have issued various pronouncements that could limit physician recruiting and retention arrangements. In IRS Revenue Ruling 97-21, the IRS ruled that tax-exempt hospitals that provide recruiting and retention incentives to physicians risk loss of tax-exempt status unless the incentives are necessary to remedy a community need and, accordingly, provide a community benefit; improvement of a charitable hospital's financial condition does not necessarily constitute such a purpose. The OIG has taken the position that any arrangement between a federal healthcare program-certified facility and a physician that is intended to encourage the physician to refer patients may violate the federal Anti-Kickback Law unless a regulatory exception applies. Physician recruiting and retention arrangements may also implicate the Stark Law. While the OIG has promulgated a practitioner recruitment safe harbor and CMS has created a Stark Law exception for practitioner recruitment, the safe harbor and Stark Law exception are limited to practice recruitment in areas that are health professional shortage areas, and to the recruitment of new physicians who are relocating their practices, respectively. In addition, as noted above, recent Stark Law regulations promulgated in March 2004 have modified the Stark Law recruitment exception and apply both to new arrangements as well as recruitment arrangements already in existence.

Management of the Series 2007 A Qualified Entity believes that the physician recruitment programs of the Series 2007 A Qualified Entity are in material compliance with these laws and policies, but no assurance can be given that future laws, regulations or policies will not have a material adverse impact on the ability of the Series 2007 A Qualified Entity to recruit and retain physicians.

Emergency Medical Treatment and Labor Act

The federal Emergency Medical Treatment and Labor Act ("EMTALA") imposes certain requirements on hospitals and facilities with emergency departments. Generally, EMTALA requires that hospitals provide "appropriate medical screening" to patients who come to the emergency department to determine if an emergency medical condition exists. The hospital must stabilize the patient, and the patient cannot be transferred unless stabilization has occurred. On September 5, 2003, CMS issued rules clarifying hospital obligations under EMTALA. These rules expand the definition of hospital emergency department to include any department or facility of the hospital, regardless of whether it is located on or off the main hospital campus, that (i) is licensed by the state in which it is located under applicable state law as an emergency room or emergency department; (ii) is held out to the public as a place that provides care on an emergency medical or urgent care basis or (iii) provides at least one-third of all of its outpatient visits for the examination and treatment of emergency medical conditions. The new rules also clarify the physician "on-call" requirements, now allowing hospitals the discretion to develop their on-call lists in a way that best meets the needs of their communities. Furthermore, the rules permit hospital departments that are off-campus to provide the most effective way for caring for emergency patients without requiring that the patient be moved to the main campus.

In addition, emergency room services provided to screen and stabilize a Medicare beneficiary furnished after January 1, 2004, must be evaluated for Medicare's "reasonable and necessary" requirements on the basis of information available to the treating physician or practitioner at the time the services were ordered.

Failure to comply with EMTALA may result in a hospital's exclusion from the Medicare and/or Medicaid programs, as well as civil monetary penalties. As such, failure of a Member of the Obligated Group to meet its responsibilities under EMTALA could adversely affect the financial condition of the Series 2007 A Qualified Entity.

Management of the Series 2007 A Qualified Entity believes its policies and procedures are in material compliance with EMTALA. There have been no inquiries about possible violations of EMTALA have been initiated against the Series 2007 A Qualified Entity. Any sanctions imposed as a result of an EMTALA violation could have a material adverse effect on the future operations or financial condition of the Series 2007 A Qualified Entity.

State Laws and Regulations

States are increasingly regulating the delivery of health care services in response to the federal government's failure to adopt comprehensive health care reform measures. Much of this increased regulation has centered on the managed care industry. State legislatures have cited their right and obligation to regulate and to oversee health care insurance and have enacted

sweeping measures that aim to protect consumers and, in some cases, providers. A number of states, for example, have enacted laws mandating a minimum of forty-eight hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions that prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a health care plan may not deny coverage for an emergency room visit if a lay person would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the Series 2007 A Qualified Entity could be subject to a variety of state health care laws and regulations affecting both managed care organizations and health care providers. In addition, the Series 2007 A Qualified Entity could be subject to state laws and regulations prohibiting, restricting or otherwise governing preferred provider organizations, third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the "corporate practice of medicine;" selective contracting ("any willing provider" laws and "freedom of choice" laws); coinsurance and deductible amounts; insurance agency and brokerage; quality assurance, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

In the event that the Series 2007 A Qualified Entity choose to engage in transactions subject to such laws, or are considered by a state in which they operate to be engaging in such transactions, the Series 2007 A Qualified Entity may be required to comply with these laws or to seek the appropriate license or other authorization from that state. Such requirements may impose operational, financial, and legal burdens, costs and risks upon the Series 2007 A Qualified Entity.

Joint Ventures

The OIG has expressed its concern in various advisory bulletins that many types of joint venture arrangements involving hospitals may implicate the Anti-Kickback Law, since the parties to joint ventures are typically in a position to refer patients of federal health care programs. In its 1989 Special Fraud Alert, the OIG raised concern about certain physician joint ventures where the intent is not to raise investment capital to start a business but rather to "lock up a stream of referrals from the physician investors and compensate these investors indirectly for these referrals." The OIG listed various features of suspect joint ventures, but noted that its list was not exhaustive. These features include: (i) whether investors are chosen because they are in a position to make referrals; (ii) whether physicians with more potential referrals are given larger investment interests; (iii) whether referrals are tracked and referral sources shared with investing physicians; (iv) whether the overall structure is a "shell" (i.e., one of the parties is an ongoing entity already engaged in a particular line of business); and (v) whether investors are required to invest a disproportionately small amount or are paid extraordinary returns in comparison with their risk.

In April 2003, the OIG issued a Special Advisory Bulletin indicating that "contractual joint ventures" (where a provider expands into a new line of business by contracting with an entity that already provides the items or services) may violate the Anti-Kickback Law and

expressing skepticism that existing statutory or regulatory safe-harbors would protect suspect contractual joint ventures.

The Series 2007 A Qualified Entity have entered or are in the process of entering into several joint ventures with physicians. The ownership and operation of certain of these joint ventures may not meet safe harbors under the Anti-Kickback Law. Management of the Series 2007 A Qualified Entity has proceeded or is proceeding with the transactions related to the joint ventures on the assumption, after consultation with its legal counsel, that each of the transactions related to the joint ventures is in compliance with the Stark Law, and is otherwise generally in compliance with the Anti-Kickback Law. However, there can be no assurance that regulatory authorities will not take a contrary position or that such transactions will not be found to have violated the Stark Law and/or the Anti-Kickback Law. Any such determination could have a material adverse effect on the financial condition of the Obligated Group.

HIPAA Administrative Simplification

Providers of health care and operators of health plans are significantly affected by certain health information requirements contained in the "administrative simplification" provisions of HIPAA. Pursuant to HIPAA, most covered entities, including the Series 2007 A Qualified Entity, were required to make significant changes to hardware, software and operations. The Series 2007 A Qualified Entity have implemented these changes, believe that such implementation has been successful and believe that reimbursement of claims will not be materially disrupted. Disruptions in reimbursement could have a material adverse effect on the financial condition of the Obligated Group.

On December 28, 2000, HHS published the final privacy rules (the "Privacy Rule") to implement other requirements of the "administrative simplification" section of HIPAA. The Privacy Rule explicitly covers health care providers, health plans, and certain clearinghouses of health care information (i.e., a "covered entity"). The Privacy Rule provides the first comprehensive federal protection for the privacy of health information. It covers all medical records and other identifiable health information used, maintained or disclosed by a covered entity whether communicated electronically, on paper or orally. Management of the Obligated Group believes that it is in material compliance with the Privacy Rule.

Finally, HHS has published regulations establishing standards concerning the security of health care data that is transmitted electronically (the "Security Standards"). The final version of the Security Standards was published February 20, 2003. The Security Standards require covered entities such as the Obligated Group Members to undertake a wide range of activities designed to enhance security of electronic information. These measures include implementing administrative, physical and technical safeguards to protect electronic health information and ensuring the confidentiality, integrity and availability of electronic health information. Most covered entities were required to comply with the Security Standards by April 20, 2005. Management of the Series 2007 A Qualified Entity believes that it is in material compliance with the Security Standards.

Market Dynamics

In providing health care services, each Member of the Obligated Group competes with a number of other providers in its service area, including for-profit and nonprofit providers of acute health care services. See APPENDIX B for a description of the principal competitors of the Obligated Group in its service area.

In addition, other affiliations among health care providers in the service areas of the Series 2007 A Qualified Entity may be either in a formative phase or under negotiation. Competition could also result from certain health care providers that may be able to offer lower priced services to the population served by the Series 2007 A Qualified Entity. These services could be substituted for some of the revenue generating services currently offered by the Series 2007 A Qualified Entity. The services that could serve as substitutes for hospital treatment include skilled, specialized and residential nursing facilities, home care, drug and alcohol abuse programs, ambulatory surgical centers, expanded preventive medicine and outpatient treatment, freestanding independent diagnostic testing facilities, increasingly sophisticated physician group practices and specialty hospitals, such as cardiac care hospitals and childrens' hospitals. Certain of such forms of healthcare delivery are designed to offer comparable services at lower prices, and the federal government and private third-party payors may increase their efforts to encourage the development and use of such programs. In addition, future changes in state and federal law may have the effect of increasing competition in the healthcare industry. The effect on the Series 2007 A Qualified Entity of any such affiliations or entry into the market by alternative providers of health care services, if completed, cannot be determined at this time, but the management of the Series 2007 A Qualified Entity believes that the Series 2007 A Qualified Entity have positioned themselves to effectively provide community-based health care throughout the areas served by the Series 2007 A Qualified Entity.

Licensing, Accreditations, Investigations and Audits

On a regular basis, health care facilities, including those of the Series 2007 A Qualified Entity are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payers, the HFAP and other accrediting bodies. Renewal and continuance of certain of these licenses, certifications and accreditation are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Series 2007 A Qualified Entity. These activities generally are conducted in the normal course of business of health care facilities. Nevertheless, an adverse result could result in a loss or reduction in the scope of licensure, certification or accreditation of the Series 2007 A Qualified Entity, or could reduce the payment received or require repayment of amounts previously remitted.

Each Member of the Obligated Group is subject to periodic review by the HFAP, and the various federal, state and local agencies created by the National Health Planning and Resources Development Act of 1974. From time to time, accrediting bodies may review their accreditations of Series 2007 A Qualified Entity and recommend certain actions or impose conditions on an existing accreditation. Management currently anticipates no difficulty renewing

or continuing currently held licenses, certifications or accreditations. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues, or the ability of the Series 2007 A Qualified Entity to operate all or a portion of their facilities, and, consequently, could adversely affect the ability of the Series 2007 A Qualified Entity to make principal, interest and premium, if any, payments with respect to the Bonds. Management does not expect any such review to require actions or impose conditions that could not be satisfied or to adversely affect the continuing accreditation of any Member of the Obligated Group. No assurance can be given as to the effect on future operations of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Future Legislation

Legislation is periodically introduced in the U.S. Congress and the Indiana General Assembly that could result in limitations on hospital revenues, reimbursement, costs or charges or that could require an increase in the quantity of indigent care required to maintain charitable status. The effect of any such proposals, if enacted, cannot be determined at this time.

Legislative bodies have considered legislation concerning the charity care standards that nonprofit, charitable hospitals must meet to maintain their federal income tax-exempt status under the Code and legislation mandating that nonprofit, charitable hospitals have an open-door policy toward Medicare and Medicaid patients as well as offer, in a non-discriminatory manner, qualified charity care and community benefits. Excise tax penalties on nonprofit, charitable hospitals that violate these charity care and community benefit requirements could be imposed or their tax-exempt status under the Code could be revoked. The scope and effect of legislation, if any, that may be enacted at the federal or state levels with respect to charity care of nonprofit hospitals cannot be predicted. Any such legislation or similar legislation, if enacted, could have the effect of subjecting a portion of the income of a Member of the Obligated Group to federal or state income taxes or to other tax penalties and adversely affect the ability of the Series 2007 A Qualified Entity individually and of the Obligated Group, taken as a whole, to generate net revenues sufficient to meet its obligations and to pay the debt service on the Bonds and its other obligations.

Malpractice Lawsuits and Malpractice Insurance

The ability of, and the cost to, the Series 2007 A Qualified Entity to insure or otherwise protect themselves against malpractice claims may adversely affect their future results of operations or financial condition.

The ability of health care providers to obtain malpractice insurance in Indiana, like most of the rest of the United States, has significantly deteriorated as rates for such insurance have increased, commercial providers have reduced their participation in, or withdrawn entirely from, the medical malpractice insurance realm, and PHICO, a Pennsylvania private malpractice insurer that had written such medical malpractice policies nationally, was declared insolvent. In addition, the events of September 11, 2001 and the attendant decline in financial markets and their impact on insurance companies' assets had an adverse impact on the medical malpractice insurance market. The ability of the Series 2007 A Qualified Entity to insure or otherwise protect themselves against malpractice claims remains in question and the cost of such protection

will likely continue to rise, which may adversely affect the financial condition and results of operations of the Obligated Group.

Many hospitals and health care providers are having difficulty renewing or obtaining commercial insurance, including insurance against malpractice and general liability claims, at reasonable cost. The insurers are providing lower amounts of coverage, requiring greater deductibles and charging larger premiums. Policies issued may not be renewed or renewable. While management of the Series 2007 A Qualified Entity considers the Obligated Group's insurance coverage to be adequate, no assurance can be given that such coverage will be available for purchase in the same amounts and on the same terms in the future.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third-party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. In some respects, the application of the federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. In particular, the Federal Trade Commission has publicly acknowledged increasing enforcement action in the area of physician joint contracting. Likewise, increased enforcement action exists relating to a retrospective review of completed hospital mergers. Violation of the antitrust laws could subject a hospital to criminal and civil enforcement by federal and state agencies, as well as treble damage liability by private litigants. At various times, a Member of the Obligated Group may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. The most common areas of potential liability are joint activities among providers with respect to payer contracting, medical staff credentialing, and use of a hospital's local market power for entry into related health care businesses. From time to time, a Member of the Obligated Group may be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose Series 2007 A Qualified Entity to antitrust risk from governmental or private sources is dependent on specific facts which may change from time to time. A U.S. Supreme Court decision now allows physicians who are subject to adverse peer review proceedings to file federal antitrust actions against hospitals. Hospitals regularly have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity. Recent court decisions have also established private causes of action against hospitals which use their local market power to promote ancillary health care business in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Government or private parties are entitled to challenge joint ventures that may injure competition. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case, and may have a material adverse impact on the Series 2007 A Qualified Entity.

Nationwide Nursing Shortage

Healthcare providers depend on qualified nurses to provide quality service to patients. There is currently a nationwide shortage of qualified nurses. This shortage and the more stressful working conditions it creates for those remaining in the profession are increasingly viewed as a threat to patient safety and may trigger the adoption of state and federal laws and regulations intended to reduce that risk. For example, some states are considering legislation that would prohibit forced overtime for nurses. In response to the shortage of qualified nurses, health care providers have increased and could continue to increase wages and benefits to recruit or retain nurses and have had to hire more expensive contract nurses.

Employees

The ability of the Series 2007 A Qualified Entity to employ and retain qualified employees, and their ability to maintain good relations with such employees may affect the quality of services to patients and the financial condition of the Series 2007 A Qualified Entity.

Investments

During certain fiscal years, investment income has constituted a significant portion of the net income of the Obligated Group. In other years, the Obligated Group has experienced losses on its investments. No assurance can be given that the investments of the Series 2007 A Qualified Entity will produce positive returns or that losses on investments will not occur in the future.

To the extent investment returns are lower than anticipated or losses on investments occur, the Series 2007 A Qualified Entity may also be required to make additional deposits in connection with pension fund liabilities.

Environmental Laws and Regulations

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations, facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals are (a) air and water quality control requirements, (b) waste management requirements, (c) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances, (d) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital, and (e) requirements for training employees in the proper handling and management of hazardous materials and wastes.

In its role as an owner and operator of properties or facilities, each Member of the Obligated Group may be subject to liability for investigating and remedying any hazardous substances that may be present on or have migrated off of its property or facilities. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with

compliance with such laws and regulations. Such risks may result from damage to individuals, property or the environment and include an interruption of operations, an increase in operating costs, legal liability, damages, injunctions or fines and investigations, administrative proceedings, penalties or other governmental agency actions. The Series 2007 A Qualified Entity expect to continue to encounter such risks in the future, and exposure to such risks could materially adversely affect the future financial condition or results of operations of individual Series 2007 A Qualified Entity and of the Obligated Group, taken as a whole.

Management of the Series 2007 A Qualified Entity is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues involving any Member of the Obligated Group which, if determined adversely, would have a material adverse effect on the future financial condition or results of operations of the Series 2007 A Qualified Entity, taken as a whole.

The Master Trustee or the Trustee may decline to enforce the Master Indenture or the Indenture, as the case may be, if the Trustee has not been indemnified to its satisfaction, in accordance with the Indenture, for all liabilities it may incur as a consequence thereof. Such liabilities may include, but are not limited to, costs associated with complying with environmental laws and regulations.

Increased Enforcement Affecting Clinical Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibilities for monitoring federally-funded research. In addition, the National Institutes of Health significantly increased the number of facility inspections that these agencies perform. The Food and Drug Administration ("FDA") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research, The FDA's inspection of facilities increased significantly in recent years. These agencies' enforcement powers range from substantial fines and penalties to exclusions of researchers and suspension or termination of entire research programs. Management of the Series 2007 A Qualified Entity believes that clinical research being conducted by the Series 2007 A Qualified Entity is in substantial compliance with material applicable requirements.

Technological Changes

Medical research and resulting discoveries have grown exponentially in the last decade. These new discoveries may add greatly to the cost of the Series 2007 A Qualified Entity providing services with no or little offsetting increase in federal reimbursement and may also render obsolete certain of the health services of the Series 2007 A Qualified Entity. New drugs and devices may increase hospitals' expense because, for the most part, the costs of new drugs and devices are not typically accounted for in the DRG payment received by hospitals for inpatient care. The PPS system imposed on outpatient services does permit a direct pass-through of certain new technologies defined by the government.

The rate of discovery of new drugs and devices has grown dramatically for several reasons. First, as medical discovery grows, it generates new avenues of research and discovery. Second, pharmaceutical and medical device companies are devoting increasing amounts of money to research and development spurred in part by reforms in the regulation of product approval for sale and distribution, The 1990s witnessed significant reforms at the FDA, the agency that regulates the introduction of new drugs and devices to the market. In 1992, Congress passed the Prescription Drug User Fee Act that levied fees on industry to support a substantial upgrade and reorganization of the agency for the purpose of dramatically decreasing the time required to secure approval for new drugs and devices. This Act was renewed and new FDA reforms were enacted by the Food and Drug Administration Modernization Act of 1997. The result of these pieces of legislation has been to cut in half the median time required for new drug approval. Other effects include decrease in the types of devices regulated, reform of the biologics approval process and decrease in clinical development times.

Once these drugs secure market approval, they are often included on hospitals' formularies (the list of drugs maintained by the hospitals for patient care). These may add significant operating expense with no immediate reimbursement through government payers for inpatient services.

A second potential effect is that discoveries could render obsolete the way that services are currently rendered, thereby either increasing expense or reducing revenues. However, any such effect cannot be predicted.

Enforcement of Remedies; Risks of Bankruptcy

The obligations of the Series 2007 A Qualified Entity under the Master Indenture and the Obligations are general obligations of the Series 2007 A Qualified Entity and are not secured by any liens on real estate, equipment or other assets of the current Series 2007 A Qualified Entity or any future Series 2007 A Qualified Entity, other than the security interest granted to the Master Trustee in the revenues of the Series 2007 A Qualified Entity. Enforcement of the remedies under the Master Indenture, the Loan Agreement and the Indenture may be limited or delayed in the event of application of federal bankruptcy laws or other laws affecting creditors' rights and may be substantially delayed and subject to judicial discretion in the event of litigation or the required use of statutory remedial procedures.

If a Member of the Obligated Group were to file a petition for relief under Title 11 of the United States Bankruptcy Code, the order for relief entered in response to the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Member of the Obligated Group and any interest it has in property. The commencement of a case under the Bankruptcy Code could greatly affect the rights of the non-filing Series 2007 A Qualified Entity, including, but not limited to, allowing the use of cash and cash equivalents pledged to the Series 2007 A Qualified Entity, impairing the claims of the Series 2007 A Qualified Entity, and potentially discharging unpaid obligations of the filing Member of the Obligated Group.

If a bankruptcy court so ordered, such property of the Series 2007 A Qualified Entity, including its accounts receivable and proceeds thereof, could be used, at least temporarily, for

the benefit of the bankruptcy estate of such Member of the Obligated Group despite the claims of its creditors.

In a case under the Bankruptcy Code, a Member of the Obligated Group could file a plan of reorganization. The plan provides for the comprehensive treatment of all claims against such Member of the Obligated Group, and could result in the modification of rights of any class of claims or interests, secured or unsecured. Other than as provided in the confirmed plan, all claims and interests are discharged and extinguished.

A plan may be confirmed if each class of claims and interests has accepted the plan or if at least one class of impaired claims that is entitled to vote has accepted the plan and the bankruptcy court finds, among other things, that the plan is fair and equitable, does not discriminate unfairly with respect to any nonaccepting class of claims, provides creditors with more than would be received if the estate was liquidated, is proposed in good faith, and that the debtor's performance under the plan is feasible. A class of claims accepts a plan if, of the creditors that vote, more than one-half of the number of claims in the class and at least two-thirds in amount of claims are voted in favor of the plan. Approval by classes of interests requires a vote in favor of the plan by two-thirds in amount. If these levels of votes are attained, those voting against the plan or not voting at all are nonetheless bound by the terms thereof.

A Member of the Obligated Group could also file a case under the Bankruptcy Code to liquidate its assets. In a liquidation, secured claims are paid according to the value of the secured interest, unsecured claims are paid in order of priority, and the costs of administering the estate are paid from the funds of the estate.

Risks Related to Obligated Group Financings

The obligations of the Series 2007 A Qualified Entity under the Obligations and the Master Indenture will be limited to the same extent as the obligations of any debtor under applicable federal and state laws governing bankruptcy, insolvency and avoidance of fraudulent transfers and the application of general principles of creditors' rights and as additionally described below. Although, upon the issuance of the Bonds, the Board will be the only member of the Obligated Group, the Master Indenture permits the addition of other members to the Obligated Group if certain conditions are met.

The joint and several obligations described herein of the Series 2007 A Qualified Entity to make payments of debt service on the Obligations issued pursuant to and under the Master Indenture may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization, fraudulent conveyance or similar laws affecting the enforcement of creditors' rights and by general equitable principles or (2) such payments (a) are requested to be made with respect to payments on any Obligation that is issued for a purpose that is not consistent with the charitable purposes of the Member of the Obligated Group from which such payment is requested or that is issued for the benefit of any entity other than a tax-exempt organization; (b) are requested to be made from any money or assets that are donor restricted or that are subject to a direct or express trust that does not permit the use of such money or assets for such payment; (c) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group

from which such payment is requested; or (d) are requested to be made pursuant to any loan violating applicable usury laws. The extent to which the money or assets of any present or future Member of the Obligated Group falls within the categories referred to above cannot be determined and could be substantial. The foregoing notwithstanding, the accounts of the Series 2007 A Qualified Entity are and will continue to be combined for financial reporting purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the issuance of Additional Indebtedness) are satisfied.

A Member of the Obligated Group may not be required to make any payment of any Obligation, or portion thereof, or the recipient of such payment may be compelled to return such payment, the proceeds of which were not lent or otherwise disbursed to such Member to the extent that such payment would conflict with, or would be prohibited or avoidable under applicable laws.

The application of the law relating to the enforceability of guaranties or obligations of a Member of the Obligated Group to make debt service payments on behalf of another Member of the Obligated Group, is not amenable to an unqualified declaration of whether a transfer would be prohibited or subject to avoidance.

As a general matter, in addition to a transfer of property made with the actual intent to hinder, defraud or delay creditors, a transfer of an interest in property by an entity may be avoided if the transfer is made for less than "reasonably equivalent value" or "fair consideration" and the transferor (i) is insolvent (e.g., is unable to pay its debts as they become due), (ii) rendered insolvent by the transaction, (iii) is undercapitalized (i.e., operating or about to operate without property constituting reasonably sufficient capital given its business operations), or (iv) intended or expected to incur debts that it could not pay as they became due.

The lack of certainty in the treatment of transfers is attributable to several factors. First, there is not a uniform law governing fraudulent transfers. Such transfers may be avoided under the Bankruptcy Code, state law variants of the Uniform Fraudulent Transfer Act and its predecessor, the Uniform Fraudulent Conveyance Act, or other non-uniform statutes or common law principles. Second and more importantly, the standards for determining the reasonable equivalence of value, or the fairness of consideration, and the measure for determining insolvency are subjective standards resolved in the exercise of judicial discretion after engaging in a fact intensive analysis. This subjectivity has resulted in a conflicting body of case law and a lack of certainty as to whether a given transfer would be subject to avoidance.

In addition, the Bankruptcy Code provides a means to avoid transfers of a debtor's interests in property made on account of an antecedent debt within 90 days of the debtor filing for relief, or one year if the transferee is an "insider," if as a result of that transfer the transferee receives more than he would have received in a liquidation of the debtor under Chapter 7 of the Bankruptcy Code. Whether the creation of a lien, or a payment, made by a Member of the Obligated Group would be determined to be avoidable would be dependent on the particular circumstances surrounding the transfer.

There exists, in addition to the foregoing, common law authority and authority under various state statutes pursuant to which courts may terminate the existence of a nonprofit

corporation or undertake supervision of its affairs on various grounds, including a finding that the corporation has insufficient assets to carry out its stated charitable purposes or has taken some action that renders it unable to carry out its purposes. Such court action may arise on the court's own motion or pursuant to a petition of the attorney general of a particular state or other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Matters Relating to the Security for the Bonds

Certain amendments to the Master Indenture may be made with the consent of the holders of a majority of the aggregate principal amount of outstanding Obligations. Such amount may be composed wholly or partially of the holders of the outstanding Obligations (including Obligations issued in the future) other than Obligations issued in connection with the issuance of the Bonds. Such amendments could be material and may adversely affect the security of the holders of the Bonds.

Certain amendments to the Indenture may be made with the consent of the holders of not less than a majority of the outstanding aggregate principal amount of the Bonds outstanding under the Indenture. Such amendments may adversely affect the security of the holders of the Bonds.

The effectiveness of the security interest in the revenues of the Obligated Group granted in the Master Indenture may be limited by a number of factors, including (i) provisions prohibiting the direct payment of amounts due to health care providers from Medicaid and Medicare programs to persons other than such providers; (ii) the absence of an express provision permitting the assignment of receivables due under the contracts with third party payers, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (iii) certain judicial decisions which cast doubt upon the right of the Trustee, in the event of the bankruptcy of a Member of the Obligated Group, to collect and retain revenues due the Members from Medicare, Medicaid and other governmental programs; (iv) commingling of proceeds of revenues with other moneys of the Obligated Group not so pledged under the Master Indenture; (v) statutory liens; (vi) rights arising in favor of the United States of America or any agency thereof; (vii) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (viii) federal bankruptcy laws which may affect the enforceability of the Master Indenture or the security interest in the revenues of any Member of the Obligated Group which are earned by such Member within 90 days preceding or, in certain circumstances with respect to related corporations, within one year preceding and after, any effectual institution of bankruptcy proceedings by or against such Member; (ix) rights of third parties in revenues converted to cash and not in the possession of the Trustee; and (x) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the Indiana Uniform Commercial Code as from time to time in effect.

The facilities of the Obligated Group are not pledged or mortgaged as security for the Bonds. Consequently, in the event of a default under the Indenture, the Bondholders would have the status of general unsecured creditors (except with respect to the pledge of revenues). The

facilities of the Obligated Group are not general purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for the facilities if it were necessary to proceed against such facilities, whether pursuant to a judgment, if any, against the Obligated Group or otherwise. As a result, upon any such default, the Trustee may not realize the amount necessary to pay the Bonds in full from the sale or lease of such facilities. The Bonds are not secured by a mortgage on the facilities of the Obligated Group.

Pursuant to the terms of the Master Indenture, Series 2007 A Qualified Entity may issue additional Notes or incur other additional indebtedness or obligations. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE—Restrictions as to Incurrence of Additional Indebtedness" in APPENDIX D hereto.

Certain of the rights and remedies afforded to the holders of Notes by the Master Indenture, including without limitation the right to demand acceleration of Notes (including the 2007 Note), may be controlled by the holders of a majority in aggregate principal amount of the Notes.

Alternative or Integrated Delivery System Development

Many hospitals and health systems, including the Series 2007 A Qualified Entity, are pursuing strategies with physicians in order to offer an integrated package of health care services, including physician and hospital services, to patients, health care insurers, and managed care providers. These integration strategies may take many forms, including management service organizations ("MSO"), which may provide physicians or physician groups with a combination of financial and managed care contracting services, office and equipment, office personnel and management information systems. Integration objectives may also be achieved via physician-hospital organizations ("PHOs"), which are typically jointly owned or controlled by a hospital and physician group for the purpose of managed care contracting, implementation and monitoring. Other integration structures include hospital based clinics or medical practice foundations, which may purchase and operate physician practices as well as provide all administrative services to physicians. Many of these integration strategies are capital intensive and may create certain business and legal liabilities for the related hospital or health system.

Often the start-up capitalization for such developments, as well as operational deficits, may be funded by the sponsoring hospital or health system. Depending on the size and organizational characteristics of a particular development, these capital requirements may be substantial. In some cases, the sponsoring hospital or health system may be asked to provide a financial guarantee for the debt of a related entity which is carrying out an integrated delivery strategy. In certain of these structures, the sponsoring hospital or health system may have an ongoing financial commitment to support operating deficits, which may be substantial on an annual or aggregate basis.

These types of integrated delivery developments are generally designed to conform to existing trends in the delivery of medicine, to implement anticipated aspects of health care reform, to increase physician availability to the community and/or enhance the managed care capability of the affiliated hospital and physicians. However, these goals may not be achieved,

and, if the development is not functionally successful, it may produce materially adverse results that are counterproductive to some or all of the above-stated goals.

All such integrated delivery developments carry with them the potential for legal or regulatory risks in varying degrees. Such developments may call into question compliance with the Medicare anti-referral laws, relevant antitrust laws, and federal or state tax exemption. Such risks will turn on the facts specific to the implementation, operation or future modification of any integrated delivery system. MSOs which operate at a deficit over an extended period of time may raise significant risks of investigation or challenge regarding tax exemption or compliance with the Medicare anti-referral laws. In addition, depending on the type of development, a wide range of governmental billing and other issues may arise, including questions of the authorization of the entity to bill for or on behalf of the physicians involved. Other related legal and regulatory risks may arise, including employment, pension and benefits, and corporate practice of medicine, particularly in the current atmosphere of frequent and often unpredictable changes in federal and state legal requirements regarding health care and medical practice. The potential impact of any such regulatory or legal risks on the Series 2007 A Qualified Entity cannot be predicted with certainty. There can be no assurance that such issues and risks will not lead to material adverse consequences in the future.

Managed Care

Each Member of the Obligated Group contracts with several third party payers. In many markets, including Indiana, managed care plans, primarily health insuring corporations ("HICs"), also known as health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs"), point of service arrangements ("POS") and self-insured employer plans covered by ERISA and administered by a third party ("ASOs") have largely replaced indemnity insurance as the prime source of nongovernmental payment for provider services. Such "managed care" plans generally use discounts, direction mechanisms, risk-transfer mechanisms and other economic and non-economic incentives to reduce or limit the cost and utilization of health care services. In these markets, hospital inpatient utilization and hospital inpatient revenues per admission have declined as managed care plans penetrate regional markets. In addition, Medicare and Medicaid have instituted managed care contracting programs in certain states, including Indiana, as discussed above.

Under a PPO arrangement, there generally are financial incentives for subscribers to use only those hospitals or providers which contract with the PPO. Under most HIC/HMO plans, private payers limit coverage to those services provided by selected hospitals. With this contracting authority, private payers, including health plans and HICs/HMOs, may direct patients away from nonselected hospitals by denying coverage for services provided by them and providing coverage but with significant financial obligations on the part of the patients.

Most PPOs and HICs/HMOs currently pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. Many health care providers do not have complete information about their actual costs of providing specific types of care, particularly since each patient presents a different mix of services and length of stay. Consequently, the discounts offered to HICs/HMOs and PPOs may result in payment at less than actual cost and the volume

of patients directed to a hospital may vary significantly from projections. Changes in utilization of certain services may be dramatic and unexpected.

Under a POS arrangement, there are financial incentives for subscribers to use a closed panel of hospitals or providers, but subscribers also are able to use hospitals or providers that do not contract with the network. Use of such non-contracting hospitals or providers requires an increased financial contribution from the subscribers, typically in the form of an increased coinsurance or deductible. If the popularity of POS plans increases, more patients may have more freedom to determine where they will obtain their health care and it will become increasingly difficult for health care providers to maintain and/or increase market share by contracting with managed care plans, networks, and other similar entities.

The Series 2007 A Qualified Entity have entered into contractual arrangements with PPO, HIC/HMO, ASO and traditional insurers pursuant to which the particular hospital agrees to perform certain health care services for eligible participants at discounted rates. Revenues received under such contracts are expected to be sufficient to cover the variable cost of the services provided.

Some HICs/HMOs mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HIC/HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such enrollees. In some cases, the capitated payment covers total patient care provided, including physician charges. HMOs/HICs also sometimes use other forms of risk-transfer, such as basing payment on a percentage of the subscriber's premium. If payment under an HMO/HIC contract is insufficient to meet the hospital's costs of care, the financial condition of the hospital could erode rapidly and significantly. Often, contracts are enforceable for a stated term, regardless of hospital losses. Further, HMO/HIC contracts are statutorily required to contain a requirement that the hospital care for enrollees for a certain period of time regardless of whether the HMO/HIC has funds to make payment to the hospital. Moreover, statutory requirements also prohibit providers from "balance billing" subscribers, even in the circumstance of an insolvency of an HMO/HIC. Contractual requirements sometimes extend balance billing restrictions and continuity of care obligations to PPOs and ASOs.

Increasingly, physician practice groups and independent practice associations have become a part of the process of negotiating payment rates to hospitals. This involvement has taken many forms, but typically increases the competition for limited payment resources from HMOs/HICs, PPOs and other third party payors. Also, it is reasonable to expect that as payors and employers attempt to limit the amount they will pay for health care, that consumers will be responsible for a larger share of their health care expenses. This could lead to the widespread development of a health care market where patients (and not payors) make the determination as to where to obtain care.

In regions where managed care is becoming prevalent, hospitals must be capable of attracting and maintaining managed care business, often on a regional basis. To do so, regional coverage and aggressive pricing may be required. However, it is also essential that contracting hospitals be able to provide the contracted services without significant operating losses, which

may require innovative cost containment efforts. There is no assurance that the Series 2007 A Qualified Entity will maintain managed care contracts or obtain other similar contracts in the future. Failure to obtain or maintain contracts could have the effect of materially reducing the market share patient base and gross revenues of the Series 2007 A Qualified Entity. Conversely, participation may maintain or increase the patient base, but could result in materially lower net income to the Series 2007 A Qualified Entity if they are unable to promptly and adequately contain their costs.

There can be no assurance that managed care contracts entered into by the Series 2007 A Qualified Entity with managed care payors will be renewed by such payors upon expiration thereof or will not be terminated prior to expiration thereof. Termination, or expiration without renewal, of managed care contracts could have a material adverse effect on the future financial condition or results of operations of individual Series 2007 A Qualified Entity and of the Obligated Group, taken as a whole.

As a consequence of such factors, the effect of managed care on the future financial condition of the Series 2007 A Qualified Entity is difficult to predict and may be materially adverse.

Charity Care, Underinsured and Uninsured Patients

Recently, focus has increased on the provision of charity care by nonprofit health care institutions and their pricing policies and billing and collection practices involving the underinsured and uninsured. This increased focus has resulted in congressional hearings, governmental inquiries (including by the IRS) and private class action litigation against more than 100 nonprofit health care institutions nationwide, generally alleging the overcharging of underinsured and uninsured patients. Although the Series 2007 A Qualified Entity are not a party to the class action litigation, management of the Series 2007 A Qualified Entity cannot predict the impact that these or related developments may have on the Series 2007 A Qualified Entity or the health care industry generally.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2007 A Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could be to adversely affect the market price for and marketability of such Bonds.

Additional Risk Factors

The following factors, among others, may also adversely affect the operation of health care organizations, including Series 2007 A Qualified Entity, to an extent that cannot be determined at this time:

- Increased efforts by insurers and governmental agencies to limit the cost of hospital services (including, without limitation, the implementation of a system of prospective review of hospital rate changes and negotiating discounted rates), to reduce the number of hospital beds and to reduce utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety, and outpatient care.

- Cost increases without corresponding increases in revenue could result from, among other factors: increases in the salaries, wages, and fringe benefits of hospital and clinic employees; increases in costs associated with advances in medical technology or with inflation; or future legislation which would prevent or limit the ability of the Series 2007 A Qualified Entity to increase revenues.

- Any termination or alteration of existing agreements between a Member of the Obligated Group and individual physicians and physician groups who render services to the patients of a Member of the Obligated Group or any termination or alteration of referral patterns by individual physicians and physician groups who render services to the patients of a Member of the Obligated Group with whom the Obligated Group does not have contractual arrangements.

- Future contract negotiations between public and private insurers, employers and participating hospitals, including the hospitals of the Series 2007 A Qualified Entity, and other efforts by these insurers and employers to limit hospitalization costs and coverage could adversely affect the level of reimbursement to the Series 2007 A Qualified Entity.

- The State currently does not have a program for the regulation or review of the rates charged for hospital services furnished to private-paying patients. If any such program were established, it may have an adverse effect on the revenues of the Series 2007 A Qualified Entity.

- An inflationary economy and difficulty in increasing room charges and other fees charged while at the same time maintaining the amount or quality of health services may affect the operating margins of the Series 2007 A Qualified Entity.

- The cost and effect of any future unionization of employees of the Series 2007 A Qualified Entity.

- The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Series 2007 A Qualified Entity.

- Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970s.

- Limitations on the availability of and increased compensation necessary to secure and retain nursing, technical or other professional personnel.

- Changes in law or revenue rulings governing the nonprofit or tax-exempt status of charitable corporations such as the Series 2007 A Qualified Entity, such that nonprofit corporations, as a condition of maintaining their tax-exempt status, are required to provide increased indigent care at reduced rates or without charge or discontinue services previously provided.

- Efforts by taxing authorities to impose or increase taxes related to the property and operations of nonprofit organizations or to cause nonprofit organizations to increase the

amount of services provided to indigents to avoid the imposition or increase of such taxes.

- Proposals to eliminate the tax-exempt status of interest on bonds issued to finance health facilities, or to limit the use of such tax-exempt bonds, have been made in the past, and may be made again in the future. The adoption of such proposals would increase the cost to the Series 2007 A Qualified Entity of financing future capital needs.

- Increased unemployment or other adverse economic conditions which could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of the service areas of the Series 2007 A Qualified Entity or by the closing of operations of one or more major employers in such service areas may result in a significant change in the demographics of such service areas, such as a reduction in the population.

In the future, other events may adversely affect the operations of the Series 2007 A Qualified Entity, as well as other health care facilities, in a manner and to an extent that cannot be determined at this time.

APPLICATION OF PROCEEDS OF THE SERIES 2007 A BONDS

Set forth below is a summary of the estimated sources and uses of the proceeds of the Series 2007 A Bonds:

Sources:

Principal amount	$44,915,000.00
Original issue premium	5,003,528.75
Accumulated Debt Service for Refunded Bonds	365,926.35
Total	$50,284,455.10

Uses:

Deposit to Refunding Fund	$49,507,933.97
Costs of Issuance	250,158.88
Underwriter's Discount	269,490.00
Premium for Financial Guaranty Insurance Policy	178,459.25
Premium for Debt Service Reserve Fund Surety Bond	78,413.00
Total	$50,284,455.10

THE INDIANA BOND BANK

The Bond Bank was created in 1984, and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power.

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement, an aggregate principal amount of approximately $2,118,095,000 in separate program obligations not secured by the Indenture, approximately $466,335,000 of which obligations are secured by debt service reserve funds eligible for annual appropriation by the State General Assembly. Additionally, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financing, if any, will be secured separately from the Series 2007 A Bonds and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

The Act

Pursuant to the Act, the purpose of the Bond Bank is to assist "qualified entities", defined in the Act to include, in part, political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1(b), leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, and any organizations, associations or trusts with members, participants or beneficiaries that are all individually qualified entities. The Bond Bank provides such assistance through programs of among other things, purchasing the bonds, notes or evidences of indebtedness of such qualified entities. Under the Act, qualified entities include entities such as cities, towns, counties, school corporations, library corporations, special taxing districts, state educational institutions, charter schools and nonprofit corporations and associations which lease facilities or equipment to such entities. The Series 2007 A Qualified Entity is a "qualified entity" within the meaning of the Act.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to: (i) a loan to or a lease or an agreement with a qualified entity; (ii) a purchase, acquisition or a sale of qualified obligations or other investments; or (iii) the performance of its duties and execution of its powers under the Act;

2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank

considers advisable, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;

3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;

4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;

5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;

6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other Program Expenses properly attributable to qualified entities;

7. To the extent permitted by the indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with the purchase of any qualified obligations, consider the need, desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the indenture or any other instrument authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at $1,000,000,000. Such aggregate limit of $1,000,000,000 does not apply to: (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in

amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption; and (v) obligations of certain types of qualified entities that have separate limits.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;

2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee, or make investments other than as permitted by the Act;

3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;

4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business or act as a savings bank, savings association or any other kind of financial institution; or

5. Engage in any form of private or commercial banking business.

Organization and Membership of the Bond Bank

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the State Public Finance Director, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the five Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Richard Mourdock, Chairman; term expires February 10, 2011. Residence, Darmstadt, Indiana. Indiana Treasurer of the State, February 10, 2007 to present; President, R.E. Mourdock and Associates, LLC, 2001 to present; Executive, Koester Companies, 1984-2000; Senior Geologist, Standard Oil Company, 1979-1984, Geologist, Amax Coal Company, 1974-1979.

Clark H. Byrum, Vice Chairman; term expired July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and NorCen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

Ryan C. Kitchell, Public Finance Director, Indiana Finance Authority, January 10, 2005 to present. Chairman, Board for Public Depositories; Board Member, Indiana Deferred Compensation Committee; Board Member, Indiana Housing and Community Development Authority; Board Member, Indiana Health and Educational Facilities Financing Authority; Senior Financial Analyst, Eli Lilly & Company, 2002-2005; Research Associate, Indiana Fiscal Policy Institute, 1999-2000; Investment and Senior Analyst, Prudential Capital Group, 1996-1999.

Russell Breeden, III, Director; term expired July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1995 to February, 2002; Director, English State Bank, 1995 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

C. Kurt Zorn, Director; term expired July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to Present; Chairman, State Board of Tax Commissioners, January 1991 to August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987-1994 (on leave 1989-1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Marni McKinney, Director; term expired July 1, 2004. Residence: Indianapolis, Indiana. Vice Chairman, 1984 to 1999, and Chairman of the Board, 1999 to present, First Indiana Bank; President and CEO, The Somerset Group, 1995 to 2000; Vice Chairman & Chief Executive Officer; First Indiana Corporation, 1999 to present; Board of Directors, The Children's Museum and Community Hospitals of Indiana, Inc.; Investment Community Member, The Indianapolis Foundation.

Russell Lloyd, Jr., Director; term expired July 1, 2006. Residence: Evansville, Indiana. Senior Director, Kruse Dicus & Associates, LLP 2004 to Present; Mayor, Evansville, Indiana, 2000 to 2003; Controller and Assistant Controller, Evansville, Indiana, 1988 to 1999; Various Management Positions, Citizens National Bank, 1980 to 1988.

Although the expiration date of the terms of five Directors has passed, the Act provides that their terms will not expire until their successors are appointed and qualified. No such successors have been appointed and qualified.

The Directors are authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board of Directors. Dan Huge was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huge previously served as the Deputy Director of the Indianapolis Local Public Improvement Bond Bank for over three years. Mr. Huge has over 20 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

REVENUES, FUNDS AND ACCOUNTS

The Indenture creates certain Funds and Accounts identified in more detail below. Pursuant to the Indenture, the Trustee will deposit the net proceeds of the Series 2007 A Bonds, together with other moneys into these Funds and Accounts as described below. Appendix D sets forth a summary of certain provisions of the Indenture.

Creation of Funds and Accounts

The Indenture establishes the following Funds and Accounts to be held by the Trustee:

1. General Fund - comprised of the following:
   (a) General Account
   (b) Redemption Account

2. Refunding Fund

3. Costs of Issuance Fund

4. Debt Service Reserve Fund

5. Rebate Fund

Deposit of Net Proceeds of the Series 2007 A Bonds, Revenues and Other Receipts

On the date of delivery of the Series 2007 A Bonds, the Trustee will deposit the proceeds from the sale of the Series 2007 A Bonds, together with other moneys made available by the Bond Bank, as follows:

(a) Into the Costs of Issuance Fund, the amount of $250,158.88 in order to pay the Costs of Issuance (other than the underwriters' discount retained by the Underwriters and the respective premiums for the Financial Guaranty Insurance Policy and the Debt Service Reserve Fund Surety Bond paid by the Underwriters directly to the Series 2007 A Bond Insurer for and on behalf of the Bond Bank); and

(b) Into the Refunding Fund of the General Fund, the amount of $49,507,933.97 constituting an Irrevocable Deposit, $49,507,933.00 of which shall be invested in Federal Securities, and $0.97 of which shall be held uninvested.

The Trustee will deposit all Revenues and all other receipts (except the proceeds of the Series 2007 A Bonds, and moneys received by the Bond Bank from the sale or redemption prior to maturity of the Series 2007 Note) into the General Account of the General Fund and will deposit any moneys received from the sale or redemption prior to maturity of the Series 2007 Note into the Redemption Account of the General Fund. Thereafter, the Trustee will deposit the proceeds of any Refunding Bonds as provided under the Supplemental Indenture authorizing the issuance of such Refunding Bonds.

OPERATION OF FUNDS AND ACCOUNTS

General Fund

General Account. The Trustee will disburse the amounts held in the General Account for the following purposes, and, in the event of insufficient funds to make all of such required disbursements, in the following order of priority:

(a) On or before 30 days after each anniversary of the issuance of the Bonds, the amounts to be transferred to the Rebate Fund.

(b) On or before 10:00 a.m., Indianapolis time, on the business day prior to any Interest Payment Date, to the Trustee such amounts as may be necessary to pay the principal and interest coming due on the Series 2007 A Bonds on such Interest Payment Date.

(c) As and to the extent necessary, to the Debt Service Reserve Fund sufficient amounts to replenish any deficiency in the Debt Service Reserve Requirement.

(d) As necessary and in accordance with the Indenture, such amounts as may be necessary to pay the reasonable costs of administering the Program (the "Program Expenses") of the Bond Bank.

(e) At such times as the Bond Bank may determine, after making all of the other transfers required under the Indenture, and upon submission by the Bond Bank of a Cash Flow Certificate giving effect to such transfer, to any Fund or Account or any other fund or account of the Bond Bank in the discretion of the Bond Bank.

Redemption Account. The Trustee will deposit in the Redemption Account all payments of principal, premium, if any, and interest received from the Qualified Entity for the optional redemption of the Series 2007 A Bonds or the Series 2007 Note, or for the mandatory sinking fund redemption of the Series 2007 A Bonds. The Trustee shall disburse amounts held in the Redemption Account as follows:

(a) To redeem Bonds of such maturity or maturities as directed by an authorized officer of the Bond Bank and the Series 2007 A Qualified Entity, if such Bonds are then subject to redemption;

(b) Not later than 10:00 a.m., Indianapolis, Indiana, time one (1) Business Day prior to each Interest Payment Date, to the General Account of the General Fund, if, and to the extent, moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, moneys in the Redemption Account not already committed to the redemption of Bonds for which notice of redemption has already been given; or

(c) To purchase Bonds of such maturity or maturities as directed by an authorized officer of the Bond Bank and the Series 2007 A Qualified Entity, regardless of whether such Bonds are then subject to redemption, in accordance with the Indenture at the most advantageous price obtainable with reasonable diligence and not in excess of the applicable redemption price for such Bonds unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that a purchase of Bonds at a price in excess of the applicable redemption price will not cause Revenues expected to be received subsequent to such purchase to be less than debt service on all outstanding Bonds. The Trustee will pay the interest accrued on any such redeemed Bonds to the date of redemption from the General Account and will pay the redemption price from the Redemption Account.

In the event that the Trustee is unable to purchase Bonds in accordance with subparagraph (c), then, subject to restrictions on redemption set forth in the Indenture, the Trustee will call for redemption on the next redemption date such amount of Bonds of such maturity or maturities directed by an authorized officer of the Bond Bank as will exhaust the Redemption Account as nearly as possible at the applicable redemption price. The Trustee will pay the interest accrued on any such redeemed Bonds to the date of redemption from the General Account and will pay the redemption price from the Redemption Account.

The Trustee may, upon direction of the Bond Bank, transfer any moneys in the Redemption Account to the General Account if the Bond Bank provides the Trustee with a Cash Flow Certificate taking into account the effect of such transfer.

Costs of Issuance Fund

Upon receipt of invoices or requisitions acceptable to the Trustee, the Trustee will disburse the amounts held in the Costs of Issuance Fund for the payment or reimbursement of the costs related to the authorization, sale, and issuance of the Series 2007 A Bonds including, but not limited to, the fees and expenses of Bond Counsel and counsel to the Bond Bank, initial fees and expenses of the Trustee, the costs of printing, execution, transportation and safekeeping of the Series 2007 A Bonds, fees and expenses of accountants and professional consultants, fees and expenses of any rating agencies, costs of credit enhancement, and all other fees and expenses payable or reimbursable, directly or indirectly, by the Bond Bank prior to or concurrently and in connection with the issuance and sale of the Series 2007 A Bonds. At such time as an authorized officer of the Bond Bank certifies that all costs of issuance have been paid, and in any event not later than November 30, 2007, the Trustee shall transfer the entire remaining balance of the Costs of Issuance Fund, if any, to the General Account of the General Fund.

Debt Service Reserve Fund

The Trustee will deposit in the Debt Service Reserve Fund all moneys required to be deposited therein pursuant to the Indenture, will invest such funds, and, except as provided in the Indenture, will disburse the funds held in the Debt Service Reserve Fund solely to the General Account for the payment of interest on and principal of the Bonds and only in the event that moneys in the General Account are insufficient to pay principal of and interest on the Bonds after all of the transfers thereto required to be made under the Indenture from the Redemption Account have been made. Amounts in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement will be transferred to the General Account or the Redemption Account, as directed by the Bond Bank.

The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the Series 2007 A Bonds a Debt Service Reserve Fund Surety Bond. If such deposit causes the Debt Service Reserve Fund to be equal to the Debt Service Reserve Requirement, moneys in the Debt Service Reserve Fund in excess of that needed for the Debt Service Reserve Fund to be equal to the Reserve Requirement will be moved in accordance with the Indenture, subject to the satisfaction of any Debt Service Reserve Fund Reimbursement Obligations from such excess as described below. If a disbursement is made pursuant to a Debt Service Reserve Fund Surety Bond, the Bond Bank will be obligated (but solely from the appropriations, if any, made and available pursuant to the Indenture or if otherwise available from the Trust Estate) within twelve months from the date on which such disbursement was made, to cure such deficiency, either (i) to reinstate the maximum limits of such Debt Service Reserve Fund Surety Bond or (ii) to deposit cash into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement. The Trustee will include in the total amount held in the Debt Service Reserve Fund an amount equal to the maximum principal amount which could be drawn by the Trustee under any such Debt Service Reserve Fund on deposit with the Trustee. Amounts required to be deposited in the Debt Service Reserve Fund will include any amount required to satisfy a Debt Service Reserve Fund Reimbursement Obligation for any Debt Service Reserve Fund Surety Bond. The Trustee is authorized to move the amounts to satisfy the Debt Service Reserve Fund Reimbursement Obligations to the provider of the Debt Service Reserve Fund Surety Bond. See "DEBT SERVICE RESERVE FUND SURETY BOND" herein.

Rebate Fund

The Trustee will establish and maintain, so long as any Bonds are outstanding and are subject to a requirement that arbitrage profits be rebated to the United States, a separate fund to be known as "Rebate Fund." The Trustee will make information regarding the Bonds and investments hereunder available to the Bond Bank and will make deposits in and disbursements from the Rebate Fund in accordance with the written instructions received from the Bond Bank and pursuant to the Indenture, will invest the Rebate Fund pursuant to written investment instructions received from the Bond Bank and will deposit income from such investments immediately upon receipt thereof in the Rebate Fund.

If a deposit to the Rebate Fund is required as a result of the computations made by the Bond Bank, the Trustee will upon receipt of written directions from the Bond Bank accept such payment for the benefit of the Bond Bank and make transfers of moneys from the General Account to the Rebate Fund to comply with such direction. If amounts in excess of that required to be rebated to the United States of America accumulate in the Rebate Fund, the Trustee will upon written direction from the Bond Bank transfer such amount to the General Account. Records of the determinations required by the Indenture and the investment instructions must be retained by the Trustee until six (6) years after the Bonds are no longer Outstanding.

Not later than sixty (60) days after the fifth anniversary date of the date of issuance of the 2007 A Bonds, and every five (5) years thereafter, the Bond Bank will pay to the United States the amount required to be paid to the United States pursuant to the Code as of such payment date, and not later than sixty (60) days after the final retirement of the Series 2007 A Bonds and any subsequently issued tax-exempt Bonds, the Bond Bank will pay to the United States the amount required to be paid to the United States pursuant to the Code as of such retirement date. Each payment required to be paid to the United States pursuant to the Indenture will be, together with a properly completed Internal Revenue Service Form 8038-T, filed with the Internal Revenue Service Center, Ogden, Utah 84201.

Amounts Remaining in Funds

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, all required rebates and the fees, charges and expenses of the Trustee will be distributed to the Bond Bank.

LITIGATION

Bond Bank

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation: restraining or enjoining the issuance, sale, execution or delivery of the Series 2007 A Bonds; seeking to prohibit any transactions contemplated by the Indenture; or in any way contesting or affecting the validity of the Series 2007 A Bonds or the Series 2007 Note or any proceedings of the Bond Bank taken with respect to the issuance or sale of the Series 2007 A Bonds, or the Pledges (as hereinafter defined under the caption "ENFORCEABILITY OF REMEDIES") or application of any moneys or security provided for payment of the Series 2007 A Bonds or the Series 2007 Note. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present directors or other officers of the Bond Bank to their respective offices is being contested.

Series 2007 A Qualified Entity

There is not now pending or, to the knowledge of the Series 2007 A Qualified Entity, threatened any litigation restraining or enjoining the entry into or execution of the Series 2007 Note or prohibiting the Series 2007 A Qualified Entity from delivering the Series 2007 Note to the Bond Bank or in any way contesting or affecting the validity of the Series 2007 Note, any

proceedings of the Series 2007 A Qualified Entity taken with respect to the execution or delivery thereof or the pledge or application of any moneys or security provided for the payment of the Series 2007 Note.

TAX MATTERS

In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Series 2007 A Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2007 A Bonds (the "Code"). The opinion of Barnes & Thornburg LLP is based on certain certifications, covenants and representations of the Bond Bank and the Series 2007 A Qualified Entity and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, under existing laws, interest on the Series 2007 A Bonds is exempt from income taxation in the State for all purposes except the State financial institutions tax. See Appendix C for the form of Bond Counsel opinion.

The Code imposes certain requirements which must be met subsequent to the issuance of the Series 2007 A Bonds as a condition to the excludability of the interest on the Series 2007 A Bonds from gross income for federal income tax purposes. Noncompliance with such requirements may cause interest on the Series 2007 A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issue, regardless of the date on which noncompliance occurs. Should the Series 2007 A Bonds bear interest that is not excludable from gross income for federal income tax purposes, the market value of the Series 2007 A Bonds would be materially and adversely affected. It is not an event of default under the Indenture or any Authorizing Instrument if interest on the Series 2007 A Bonds or the Series 2007 Note, respectively, is not excludable from gross income for federal income tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Series 2007 A Bonds.

The interest on the Series 2007 A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Series 2007 A Bonds taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

The Series 2007 A Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, include all corporations which are transacting the business of a financial institution in the State. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Series 2007 A Bonds is excludable from gross income for federal income tax purposes and exempt from State income tax, the accrual or receipt of interest on the Series 2007 A Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Series 2007 A Bonds should consult their own tax advisors with regard to other tax consequences of owning the Series 2007 A Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Series 2007 A Bonds. Prospective purchasers of the Series 2007 A Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Series 2007 A Bonds.

AMORTIZABLE BOND PREMIUM

The initial offering prices of all of the Series 2007 A Bonds (collectively, the "Premium Bonds"), are greater than the respective principal amounts payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth at Section 171(b) of the Code. No income tax deduction for the amount of Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of the Premium Bonds.

Special rules governing the treatment of Bond Premium which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of such Bond Premium.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the holders of the Series 2007 A Bonds upon a default under the Indenture, to the Trustee or the Bond Bank under the Series 2007 Note or the Loan Agreement, or to any party seeking to enforce the pledges securing the Series 2007 A

Bonds or the Series 2007 Note described herein (collectively the "Pledges"), are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided (or which may be provided) in the Indenture, the Loan Agreement and the Series 2007 Note, or to any party seeking to enforce the Pledges, may not be readily available or may be limited. Under Federal and State environmental laws, certain liens may be imposed on property of the Bond Bank or the Qualified Entities from time to time, but the Bond Bank has no reason to believe, under existing law, that any such lien would have priority over the lien on the Qualified Obligation Payments pledged to owners of the Series 2007 A Bonds under the Indenture or over the liens pledged to the owner of the Series 2007 Note under the Loan Agreement.

The various legal opinions to be delivered concurrently with the delivery of the Series 2007 A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and by public policy. These exceptions would encompass any exercise of the Federal, State or local police powers in a manner consistent with the public health and welfare. Enforceability of the Indenture, the Loan Agreement and the Pledges in a situation where such enforcement may adversely affect public health and welfare may be subject to these police powers.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance, sale and delivery of the Series 2007 A Bonds are subject to the approval of Barnes & Thornburg LLP, Indianapolis, Indiana, Bond Counsel, whose approving legal opinion will be delivered with the Series 2007 A Bonds, substantially in the form attached hereto as Appendix C. Certain legal matters will be passed on by Issuer's Counsel, Coleman Graham & Stevenson, LLC, Indianapolis, Indiana, and Baker & Daniels LLP, Indianapolis, Indiana, counsel for the Underwriter.

RATINGS

Standard & Poor's is expected to assign a rating of "AAA" to the Series 2007 A Bonds. Such rating is conditioned upon the issuance of the Financial Guaranty Insurance Policy by the Series 2007 A Bond Insurer. Standard & Poor's has assigned a long term rating, without consideration of the Financial Guaranty Insurance Policy or other credit enhancement, of "A+" to the Series 2007 A Bonds. These ratings reflect only the view of Standard & Poor's and an explanation thereof may be obtained from Standard & Poor's at 55 Water Street, New York, New York 10041. Such ratings are not a recommendation to buy, sell or hold the Series 2007 A Bonds. There is no assurance that such ratings will remain in effect for any given period of time or that such rating will not be lowered or withdrawn entirely by Standard & Poor's if, in its judgment, circumstances so warrant. The Underwriter has undertaken no responsibility either to bring to the attention of the owners of the Series 2007 A Bonds any proposed revision or withdrawal of any rating of the Series 2007 A Bonds or to oppose any such proposed revision or

withdrawal. Any such downward revision or withdrawal of any rating may have an adverse effect on the market price or marketability of the Series 2007 A Bonds.

UNDERWRITING

The Series 2007 A Bonds are being purchased by the Underwriters. The Underwriters have agreed to purchase the Series 2007 A Bonds at an aggregate purchase price of $49,392,166.50, which represents the par amount of $44,915,000.00, less the underwriters' discount of $269,490.00, plus original issue premium of $5,003,528.75, less the premiums for the Financial Guaranty Insurance Policy and the Debt Service Reserve Fund Surety Bond in the aggregate amount of $256,872.25, pursuant to a purchase contract entered into by and between the Bond Bank and the Underwriters. Such purchase contract provides that the Underwriters will purchase all of the Series 2007 A Bonds if any are purchased.

The Underwriters have agreed to make a bona fide public offering of all of the 2007 A Bonds at prices not in excess of the initial public offering prices set forth or reflected inside the cover page of this Official Statement. The Underwriters may sell the 2007 A Bonds to certain dealers (including dealers depositing 2007 A Bonds into investment trusts) and others at prices lower than the offering prices set forth inside the cover page hereof.

On April 30, 2007, Seasongood & Mayer, LLC announced that it has agreed to be acquired by RBC Dain Rauscher Inc., a subsidiary of Royal Bank of Canada. RBC Dain Rauscher's municipal finance business operates under the trade name RBC Capital Markets. Completion of the merger is subject to various regulatory approvals and other customary conditions and is expected to close in the second quarter of 2007.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The accuracy of certain mathematical computations showing (i) that payments on the Series 2007 Note, together with other available revenues, have been structured to be sufficient to pay principal of and interest on the Series 2007 A Bonds when due; (ii) that the adequacy of the maturing principal of the Federal Securities, together with other money securities held in the Refunding Fund to provide for the payment of principal and interest on the Refunded Bonds when due and upon redemption thereof; and (iii) the yield on the Federal Securities held in the Refunding Fund, the Refunded Bonds and the Series 2001 A Bonds, all will be verified by Crowe Chizek and Company LLC, independent certified public accountants. Such verifications shall be based upon certain information and assumptions supplied by the Bond Bank and the Underwriters.

SERIES 2007 A BONDS AS LEGAL INVESTMENTS

Pursuant to the Act, all Indiana financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees, and other

fiduciaries may legally invest sinking funds, money, or other funds belonging to them or within their control in bonds or notes issued by the Bond Bank.

AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION

Separate audited financial reports of the State and the Bond Bank, respectively, (collectively, the "Financial Reports") are prepared annually and are presently available for the year ended June 30, 2006, and prior years. No financial reports related to the foregoing entities are prepared on an interim basis and there can be no assurance that there have not been material changes in the financial position of the foregoing entities since the date of the most recent available Financial Statements. Upon request and receipt of payment for reasonable copying, mailing and handling charges, the Bond Bank will make available copies of the most recent Financial Reports, any authorizing or governing instruments defining the rights of owners of the Series 2007 A Bonds or the owners of the Series 2007 Note and available financial and statistical information regarding the Bond Bank and the Series 2007 A Qualified Entity. Requests for documents and payments therefor should be directed and payable to the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204.

CONTINUING DISCLOSURE

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), and the terms of the Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), between the State and the Bond Bank, the State will agree to provide or cause to be provided the following annual financial information and operating data, as long as the State is an "obligated person" (within the meaning of the Rule) with respect to the Bonds (or until such time as the Bonds may be defeased or paid in full, all as more fully set forth in the Continuing Disclosure Agreement):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") and to the Indiana state information depository, if any (the "State Depository"), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ended June 30, 2007, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within 220 days following the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2007, the State Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the State Annual Information when they become available; and

2. Financial Information in this Official Statement. To each NRMSIR and to the State Depository, if any, within 220 days of the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2007, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix A - "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA."

(The information described in items 1 and 2 above is referred to as the "State Annual Information.")

Pursuant to the terms of the Continuing Disclosure Agreement, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board (the "MSRB"), and to the State Depository, if any, the following event notices, if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the security;
- modifications to the rights of security holders;
- bond calls (other than mandatory scheduled redemptions, not otherwise contingent upon the occurrence of an event, the terms of which redemptions are set forth in detail in the final official statement);
- defeasances;
- release, substitution or sale of property securing repayment of the securities; and
- rating changes.

The State or the Bond Bank may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above.

Pursuant to a continuing disclosure agreement (the "Series 2007 A Qualified Entity Continuing Disclosure Agreement"), while the Series 2007 A Bonds are outstanding, the Series 2007 A Qualified Entity has agreed to provide to the Bond Bank the preceding event notices with regard to the Series 2007 Note that it has issued, if material, and in a timely manner, and has agreed to provide the following information ((1) and (2) below collectively, the "Series 2007 A Qualified Entity Annual Information"):

(1) To each NRMSIR and to the SID, when and if available, the audited financial statements of the Series 2007 A Qualified Entity (and the members of the Obligated Group) for each fiscal year of the Series 2007 A Qualified Entity, beginning with the fiscal year ending December 31, 2007, together with the independent auditor's report and all notes thereto;

(2) To each NRMSIR and to the SID, within 150 days of the close of each fiscal year of the Series 2007 A Qualified Entity (and the members of the Obligated Group) for such fiscal year, other than the audited financial statements described in (1) above, including (i) unaudited consolidated financial statements of the Series 2007 A Qualified Entity (and the members of the Obligated Group if audited (consolidated) financial statements are not then available and (ii) operating data (excluding any

demographic information or forecasts) of the general type as described in Appendix B of this Official Statement under the captions "THE QUALIFIED ENTITY - Historical Utilization," "-Statement of Revenues and Expenses," "-Sources of Patient Revenue" and "-Historical and Pro Forma Debt Service Coverage" (only as to actual historical debt service coverage);

(3) To each NRMSIR and to the SID within 60 days of the end of each quarter of the Series 2007 A Qualified Entity's fiscal year, beginning with the fiscal year ending December 31, 2007, a report (the "Quarterly Report") consisting of an unaudited balance sheet, statement of operations and changes in net assets for such fiscal year prepared by the Series 2007 A Qualified Entity; and

(4) If any Annual Information or Quarterly Report relating to the Series 2007 A Qualified Entity (and the members of the Obligated Group) referred to in (1), (2) or (3) above no longer can be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the Series 2007 A Qualified Entity to each NRMSIR and to the SID, along with any other Annual Information or Quarterly Report required to be provided under the Series 2007 A Qualified Entity Continuing Disclosure Agreement, shall satisfying the undertaking to provided such Annual Information or Quarterly Report. To the extent available, the Series 2007 A Qualified Entity shall cause to be filed along with the other Annual Information or Quarterly Report operating data similar to that which can no longer be provided.

Notwithstanding the foregoing, any information required to be provided by the State, the Bond Bank or the Series 2007 A Qualified Entity to each NRMSIR and the State Depository as described above may, instead, be provided to DisclosureUSA, but only for so long as the conditions for the interpretation made by the SEC in the Response continue to be met. "DisclosureUSA" means the Internet-based electronic filing system created by the Municipal Advisory Council of Texas for the purpose of facilitating compliance by issuers and obligated persons (both as defined in the Rule) with continuing disclosure agreements entered into to satisfy the obligations of underwriters (as defined in the Rule). "Response" means the interpretive letter, dated September 7, 2004, released by the Division of Market Regulation of the SEC regarding DisclosureUSA.

Failure to Disclose

In a timely manner, the State shall notify each NRMSIR or the MSRB, and the State Depository, if any, of any failure on the part of the State to provide the State Annual Information on or before the dates specified in the Continuing Disclosure Agreement. If any information relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR and to the State Depository, if any, along with the State Annual Information required

as specified above and containing such information as is still available, will satisfy the State's undertaking to provide the State Annual Information. To the extent available, the State will cause to be filed along with the State Annual Information operating data similar to that which can no longer be provided.

In a timely manner, the Series 2007 A Qualified Entity shall notify each NRMSIR or the MSRB, and the State Depository, if any, of any failure on the part of the Series 2007 A Qualified Entity to provide the Series 2007 A Qualified Entity Annual Information on or before the dates specified in the Series 2007 A Qualified Entity Continuing Disclosure Agreement. If any information relating to the Series 2007 A Qualified Entity can no longer be provided because the operations to which it relates have been materially changed or discontinued, a statement to that effect, provided by the Series 2007 A Qualified Entity to each NRMSIR and to the State Depository, if any, along with the Series 2007 A Qualified Entity Annual Information required as specified above, will satisfy the Series 2007 A Qualified Entity's undertaking to provide the Series 2007 A Qualified Entity Annual Information.

Accounting Principles

The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time, or those mandated by State law from time to time. The audited financial statements of the Series 2007 A Qualified Entity (i) will be audited and prepared pursuant to accounting and reporting policies conforming in all material respects to generally accepted accounting principles as applicable to governments with such changes as may be required from time to time in accordance with State law, or (ii) will be audited (only if required by State law) and prepared in accordance with State law.

Remedies

The Continuing Disclosure Agreement and the Series 2007 A Qualified Entity Continuing Disclosure Agreement (collectively, the "Undertakings") are solely for the benefit of the holders and beneficial owners of the Bonds and create no new contractual or other rights for the SEC, any underwriters, brokers, dealers, municipal securities dealers, potential customers, or other obligated persons or any other third party. The sole remedy against the State, the Bond Bank or the Series 2007 A Qualified Entity for any failure to carry out any provision of their respective Undertakings shall be for specific performance of their respective obligations thereunder. Failure on the part of the State or the Bond Bank to honor their respective covenants under the Continuing Disclosure Agreement shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State or the Bond Bank is a party. Failure on the part of the Series 2007 A Qualified Entity to honor its covenants under its Series 2007 A Qualified Entity Continuing Disclosure Agreement shall not constitute a breach or default of the Series 2007 Note or any other agreement to which the Series 2007 A Qualified Entity is a party. This remedy may be exercised by any holder or beneficial owner of the Bonds who may seek specific performance by court order to cause the State, the Bond Bank or the Series 2007 A Qualified Entity to comply with their respective obligations thereunder.

Modification of Continuing Disclosure Agreement

The Bond Bank and the State may, from time to time, amend or modify any provision of the Continuing Disclosure Agreement, without the consent of the holders or the beneficial owners of the Bonds if either: (a) (i) such amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank, the State or the Series 2007 A Qualified Entity, or type of business conducted by any such parties, (ii) the Continuing Disclosure Agreement, as so amended or modified, would have complied with the requirements of the Rule on the date of the Continuing Disclosure Agreement, as the case may be, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or beneficial owners of the Bonds, as determined either by (A) any person selected by the State or the Bond Bank that is unaffiliated with the State, the Bond Bank or the Series 2007 A Qualified Entity (including the Trustee), with regard to the Continuing Disclosure Agreement, or (B) an approving vote of the holders of the requisite percentage of Outstanding Bonds as required under the Indenture at the time of such amendment or modification; or (b) such amendment or waiver (including an amendment which rescinds the Continuing Disclosure Agreement) is permitted by the Rule.

The State Annual Information for the fiscal year during which any such amendment or modification occurs that contains the amended or modified State Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of State Annual Information being provided.

Copies of the Continuing Disclosure Agreement are available from the Bond Bank upon request.

Modification of Series 2007 A Qualified Entity Continuing Disclosure Agreement

The Series 2007 A Qualified Entity may, from time to time, amend any provision of the Series 2007 A Qualified Entity Continuing Disclosure Agreement without the consent of the holders or the beneficial owners of the Bonds if either: (a) (i) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Series 2007 A Qualified Entity, or type of business conducted, (ii) the Series 2007 A Qualified Entity Continuing Disclosure Agreement, as so amended, would have complied with the requirements of the Rule on the date of the Series 2007 A Qualified Entity Continuing Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment does not materially impair the interest of the holders or beneficial owners of the Bonds, as determined either by (A) any person selected by the Series 2007 A Qualified Entity that is unaffiliated with the Series 2007 A Qualified Entity, the Bond Bank or the State (such as the Trustee) or (B) an approving vote of the holders of the requisite percentage of outstanding Bonds as required under the Indenture at the time of such amendment; or (b) such amendment is otherwise permitted by the Rule.

Copies of the Series 2007 A Qualified Entity Continuing Disclosure Agreement are available from the Bond Bank upon request.

Compliance with Previous Undertakings

In the previous five years, the Bond Bank, the State and the Series 2007 A Qualified Entity have never failed to comply in all material respects with any previous undertakings in a written contract or agreement that any of them entered into pursuant to subsection (b)(5) of the Rule.

MISCELLANEOUS

The references, excerpts, and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the Series 2007 A Bonds, the security for the payment of the Series 2007 A Bonds and the rights of the owners thereof. During the period of the offering, copies of drafts of such documents may be examined at the office of the Underwriter. Following delivery of the Series 2007 A Bonds, copies of such documents may be examined at the offices of the Bond Bank.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Official Statement involving matters of opinions or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information presented herein since the date hereof. This Official Statement is submitted in connection with the issuance and sale of the Series 2007 A Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement among the Bond Bank, the Qualified Entities, the Trustee or the Underwriter and the purchasers or owners of any Series 2007 A Bonds. The delivery of this Official Statement has been duly authorized by the Board of Directors of the Bond Bank.

INDIANA BOND BANK

By: /s/ Richard Mourdock
Richard Mourdock, Chairman, Ex Officio

APPENDIX A

FINANCIAL AND ECONOMIC STATEMENT
FOR
STATE OF INDIANA

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APPENDIX A

FINANCIAL AND ECONOMIC STATEMENT
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INTRODUCTION

This Financial and Economic Statement (this "Appendix A") for the State of Indiana (the "State") includes a description of the State's economic and fiscal condition, the results of operations for the past two fiscal years and revenue and expenditure projections through the end of the biennium ending June 30, 2007. The information is compiled on behalf of the State by the State Budget Agency and the Indiana Finance Authority and includes information and data taken from the Budget Agency's unaudited reports. It also includes information obtained from other sources the State believes to be reliable.

Additional information may be obtained by contacting the Public Finance Director of the State of Indiana, One North Capitol Avenue, Suite 900, Indianapolis, Indiana 46204; Telephone (317) 233-4332. This Appendix A should be read in its entirety, together with any supplements.

STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any department may exercise any function of another department, unless expressly authorized to do so by the constitution.

Executive Department

The Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General and Superintendent of Public Instruction comprise the executive department of the State. All are elected for four-year terms.

The executive power of the State is vested in the Governor. The State constitution requires the Governor to take care that the laws are faithfully executed. The Governor may recommend legislation to the General Assembly of the State (the "General Assembly"), call special sessions of the General Assembly and veto any bill passed by the General Assembly (although any veto may be overridden if the bill is re-passed by a majority of all the members elected to each house of the General Assembly).

The Lieutenant Governor serves as the President of the State Senate. The Lieutenant Governor also serves as Secretary of Agriculture and Rural Development, is a member of the Indiana Housing and Community Development Authority, oversees the Office of Tourism Development, oversees the Energy Group and chairs the Counterterrorism and Security Council.

The Secretary of State administers State laws regulating the chartering of new businesses, the filing of commercial liens and the issuance of trademarks, notaries public and summonses. In addition, the Secretary of State regulates the State's securities industry and oversees the State's elections.

The Treasurer of State is responsible for the investment and safekeeping of State monies. The Treasurer of State is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority. The Treasurer of State is a member of the State Board of Finance, Indiana Finance Authority, Indiana Housing and Community Development Authority, Indiana Wireless Enhanced 911 Advisory Board and Deferred Compensation Plan.

The Auditor of State maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for State funds, overseeing and disbursing tax distributions to local governments, paying the State's bills and paying the State's employees. The Auditor of State is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The Auditor of State is the administrator of the Deferred Compensation Plan, the secretary of the State Board of Finance and a member of the Board for Depositories.

The Attorney General is the chief legal officer of the State and is required to represent the State in lawsuits in which the State is a party. The Attorney General, upon request, gives legal opinions to the Governor, members of the General Assembly and officers of the State. In addition, the Attorney General investigates and prosecutes certain consumer complaints and Medicaid fraud.

The Superintendent of Public Instruction chairs the State Board of Education and directs the Department of Education.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Special sessions of the General Assembly may be convened by the Governor at any time. A special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The judicial power of the State is vested in a Supreme Court, a Court of Appeals, Circuit Courts and such other courts as the General Assembly may establish.

The Judicial Nominating Commission (comprised of the Chief Justice or his designee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote serve a ten-year term, after which they are again subject to referendum.

FISCAL POLICIES

Fiscal Years

The State's fiscal year is the twelve-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system that processes all payments for State agencies and institutions, except State colleges and universities. The Auditor of State is responsible for the pre-audit of all payments, the issuance of all warrants and the maintenance of the accounting system.

Budgetary control is integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

Fund Structure

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds. Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenue is recognized when susceptible to accrual (that is, when it is "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds.

General Fund. The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Special Revenue Funds include the Motor Vehicle Highway Fund, which receives revenue from gasoline taxes and motor vehicle registrations and operator licensing fees, and distributes that revenue among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTR Fund") is also reported as a Special Revenue Fund by the Auditor of State. The PTR Fund is funded from 50% of State sales and use tax revenue, a portion of individual income tax receipts and a portion of Gaming Revenue described below. The PTR Fund is used to provide (i) property tax relief and (ii) local school aid.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are bodies corporate and politic with the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds. Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds. Proprietary Funds are used to account for a government's business-type activities. They use the accrual basis of accounting. There are two types of Proprietary Funds: Enterprise Funds and Internal Service Funds.

Enterprise Funds. Enterprise Funds are used to account for provision of services to customers outside the government. Examples are the State Lottery Commission and Inns and Concessions.

Internal Service Funds. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government.

Fiduciary Funds. Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support government programs. They use the accrual basis of accounting. Indiana has three types of Fiduciary Funds: Pension Trust Funds, Private-purpose Trust Funds and Agency Funds.

Pension Trust Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans or other employee benefit plans. Examples are the State Police Pension Fund and the Employees' Deferred Compensation Fund.

Private-purpose Trust Funds. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund.

Agency Funds. Agency Funds are used to account for situations where the government's role is purely custodial, such as the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

Budget Process

State Budget Agency. The Budget Agency is responsible for preparing the State budget. After the budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

State Budget Committee. The Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President pro tempore of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request. In September of each even-numbered year, the Budget Committee begins hearings on budget requests. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

Revenue Projections. Revenue projections are prepared by the State's Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists from Indiana and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenue. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Budget Committee appoint one additional member from a higher education institution for a total of six members. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee, although the Economic Forecast Committee provides the economic assumptions used by the Technical Forecast Committee in preparing revenue projections.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bill are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bill, the recommendation of the Budget Agency is included in the bill.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers the budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes a budget bill first and sends it to the Senate for consideration.

The budget report includes (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the State capital improvement program, (e) the requests for appropriations by State agencies and (f) the Budget Agency's recommended appropriations.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the Auditor of State and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance for the ensuing Fiscal Year. The Auditor of State then establishes the necessary accounts based upon the list.

Intra-Agency Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may, with the approval of the Governor and the State Budget Director, transfer, assign or reassign all or any part of any appropriation made to any agency for a specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make "contingency appropriations" to the Budget Agency, which are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. The Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following: (a) necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made; (b) repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made; (c) emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made; or (d) supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if it is found necessary to accomplish the orderly administration of the agency or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the "Finance Board") consists of the Governor, the Treasurer of State and the Auditor of State. The Finance Board elects from its membership a president, who, by tradition, is the Governor. The Auditor of State is the secretary of the Finance Board. The Finance Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Finance Board may transfer money between funds, except trust funds, and the Finance Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Finance Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenue. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenue is not being received by the General Fund to repay the loan when due, the Finance Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Finance Board has never negotiated a loan to meet a deficit in State revenue.

Office of Management and Budget

In 2005, legislation was enacted that established the Office of Management and Budget ("OMB"), to direct the fiscal management and budget policy of the State.

The Director ("Director") of the OMB is the chief financial officer of the State, and reports directly to the Governor. The Director is responsible for and has authority over all functions performed by the Budget Agency, the Department of State Revenue and the Department of Local Government Finance, as well as all budgeting, accounting and spending functions within the various agencies, departments and programs of State government. The Director may also serve as the State Budget Director. By statutory designation, the State Budget Director also serves as the Chairman of the Indiana Finance Authority. Pursuant to Executive Order 05-02, the OMB oversees and coordinates the functions, responsibilities and duties of the Public Employees' Retirement Fund (PERF), the Teachers' Retirement Fund (TRF) and the State Board of Accounts to the fullest extent permitted by law.

The Division of Government Efficiency and Financial Planning of the OMB conducts operational and procedural audits of State government, performs financial planning, designs and implements efficiency projects, and carries out such other responsibilities as may be designated by the Director.

Cash Management and Investments

The Treasurer of State is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The Treasurer of State is responsible for investing the General Fund, the PTR Fund and more than 60 other funds. The investments in which the Treasurer of State may invest State funds are limited to: (a) securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and issued by the United States Treasury, a federal agency, a federal instrumentality or a federal government sponsored enterprise; (b) obligations issued by (i) agencies or instrumentalities of the United States government, (ii) federal government sponsored enterprises or (iii) the Indiana Bond Bank that are secured by tax anticipation time warrants or notes that (a) are issued by a political subdivision of the State and (b) have a maturity date not later than the end of the calendar year following the year of issuance; (c) certain money market mutual funds, the portfolio of which is limited to (i) direct obligations of the United States, (ii) obligations issued by any federal agency, federal instrumentality or federal government sponsored enterprise or (iii) repurchase agreements fully collateralized by obligations described in (i) or (ii); (d) deposit accounts of certain designated depositories; or (e) certain other securities. Investments may be made only in securities having a maturity of up to two years, except that up to 25% of the total portfolio of funds invested by the Treasurer of State may be invested in securities having a maturity of up to five years.

Audits

The State Board of Accounts is the State agency responsible for (a) auditing all State and local units of government and (b) approving uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the comprehensive annual financial report (or CAFR) prepared annually by the Auditor of State.

2006 Financial Report

The Indiana Comprehensive Annual Financial Report For Fiscal Year Ended June 30, 2006 (the "2006 Financial Report"), contains certain financial information about the State, including the financial statements of the State as of and for the Fiscal Year ended June 30, 2006 as set forth therein. The 2006 Financial Report was previously provided to each then nationally recognized municipal securities information repository (each then nationally reorganized municipal securities information repository, a "NRMSIR"), and is included in this Appendix A by reference.

A copy of the 2006 Financial Report may be obtained from any NRMSIR. In addition, the 2006 Financial Report may be found at: http://www.in.gov/auditor/publications/CAFR.

The 2006 Financial Report speaks only as of its date. The inclusion of the 2006 Financial Report in this Appendix A does not imply that there has been no change in the information therein since the date thereof.

STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS

Operating Revenue

While certain revenue of the State is required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenue is general revenue until applied. No lien or priority is created to secure the application of such revenue to any particular purpose or to any claim against the State. All revenue not allocated to a particular fund is credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as "State Operating Revenue" or "Operating Revenue." Operating Revenue is defined as the total of General Fund and PTR Fund revenue forecasted by the Technical Forecast Committee. Total Operating Revenue together with "DSH revenue" transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State's unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. "DSH" is an acronym for "Disproportionate Share for Hospitals (federal funds)," and DSH revenue constitutes additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor people. See "Fund Balances—Combined General and PTR Fund."

General Fund and PTR Fund Revenue Sources

Sales and use taxes, corporate and individual income taxes and wagering taxes are the three primary sources of State Operating Revenue. Table 1 provides annual revenue by source and growth rates over time. The following is a summary of Operating Revenue by source.

Sales and Use Taxes. The 2002 General Assembly, meeting in Special Session, increased the sales and use tax rate from 5.0% to 6.0%, effective December 1, 2002. This tax is imposed on the sale and rental of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 6.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, research and development equipment after July 1, 2007, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs.

Corporate Income Taxes. As part of tax restructuring legislation passed in 2002, the General Assembly repealed the gross income tax and the supplemental corporate net income tax and increased the corporate adjusted gross income tax rate to 8.5% of apportioned Indiana adjusted gross income (AGI). These changes were effective January 1, 2003.

Adjusted Gross Income Tax. The adjusted gross income tax is applicable to corporations doing business in the State. Prior to the change in tax rate, the effective rate for a taxpayer paying adjusted gross income tax and supplemental net income tax was 7.47%. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax. Adjusted gross income tax collections are allocated to the General Fund.

Utilities Receipts Tax. The utilities receipts tax is based on gross receipts from retail utility sales. It is imposed at a rate of 1.4% and was effective January 1, 2003. Utilities must also pay the corporate adjusted gross income tax.

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents with income derived from Indiana sources is taxed at 3.4%. All revenue derived from the collection of the adjusted gross income tax imposed on persons is credited to the General Fund and PTR Fund.

Wagering Tax. The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Prior to Fiscal Year 2003, all wagering taxes earned by the State were deposited into the Build Indiana Fund. Legislation passed in 2002 changed the collection and distribution of wagering taxes and allowed riverboats to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. The legislation imposes a graduated wagering tax on riverboats that adopt flexible scheduling. The graduated tax is set at 15% of the first $25 million of adjusted gross receipts in a fiscal year, 20% of receipts between $25 million and $50 million, 25% of receipts between $50 million and $75 million, 30% of receipts between $75 million and $150 million, and 35% of adjusted gross receipts in excess of $150 million. The wagering tax on riverboats that do not implement flexible scheduling increased from 20% to 22.5% of adjusted gross receipts; however, all riverboats operating in Indiana have implemented flexible scheduling.

The legislation also changed the distribution of wagering taxes. The first $33 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations, and 75% is deposited in the PTR Fund. From the revenue distributed to the PTR Fund, an amount is distributed annually to the Build Indiana Fund.

Other Operating Revenue. Other revenue ("Other Revenue") is derived from cigarette taxes, alcoholic beverage taxes, inheritance taxes, insurance taxes, interest earnings and miscellaneous revenue. In 2002, the General Assembly increased the cigarette tax by $0.40 per pack, to $0.555 per pack, and increased the tax on other tobacco products by 3 percentage points.

Revenue History

Annual percentage changes for each component of Operating Revenue is reflected in Table 1. The table also includes actual revenue for prior Fiscal Years as well as projected revenue for Fiscal Year 2007.

Table 1
State Operating Revenue
(Millions of Dollars)

	FY 2003[1]	FY 2004[1]	FY 2005[1]	FY 2006[1]	FY 2007[2]
Sales Tax	4,172.4	4,721.0	4,960.4	5,226.3	5,365.7
Change from Prior Year	10.9%	13.1%	5.1%	5.4%	2.7%
Individual Income	3,644.2	3,807.9	4,213.2	4,322.4	4,494.6
Change from Prior Year	2.9%	4.5%	10.6%	2.6%	4.0%
Corporate Income	729.2	644.7	824.8	925.4	894.9
Change from Prior Year	2.8%	-11.6%	27.9%	12.2%	-3.3%
Wagering Tax	430.7	601.5	584.7	589.9	626.7
Change from Prior Year	N/A	39.7%	-2.8%	0.9%	6.2%
Other[3]	903.6	844.8	853.4	996.6	976.6
Change from Prior Year	29.6%	-6.5%	1.0%	16.8%	-2.0%
Total	9,880.1	10,619.9	11,436.5	12,060.6	12,358.5
Change from Prior Year	13.4%	7.5%	7.7%	5.5%	2.5%

(1) Actual, but unaudited, Operating Revenue.
(2) Revenues are those projected by the Technical Forecast Committee on December 14, 2006.
(3) See "General Fund and PTR Fund Revenue Sources – Other Operating Revenue."
Source: State Budget Agency

Lottery and Gaming Revenue

By statute, certain revenue from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenue") must be deposited in the Build Indiana Fund ("BIF"). In 2002, the General Assembly enacted annual distributions of wagering tax revenue to the BIF in the amount of $250 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of $250 million is to remain in the PTR Fund. For a description of wagering taxes, *see* "General Fund and PTR Fund Revenue Sources—Wagering Tax."

Before Hoosier Lottery profits are transferred to the Build Indiana Fund, $60 million annually is used to fund pension liabilities—$30 million goes to the Teachers' Retirement Fund and $30 million goes to the local Police and Firefighter Pension Fund. All lottery and gaming revenue deposited to BIF is appropriated by the General Assembly, and the statute that governs deposits of that revenue also governs priority of distribution in the event that revenue falls short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State's counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles—$236.2 million were appropriated for Fiscal Year 2006.

For Fiscal Year 2006, Gaming Revenue totaling $807.7 million was collected by the State from the following sources:

Riverboat gaming	$589.9 million
Hoosier Lottery	209.9 million
Charity gaming	3.5 million
Horse racing	4.4 million

Source: State Budget Agency

Operating Expenditures

Actual expenditures may differ from estimated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State's five largest expenditure categories include local school aid, higher education, property tax relief, Medicaid and correction. Table 2 sets forth operating expenditures and estimates for all major expenditure categories for Fiscal Years 2001 through 2007.

Table 2
Expenditures
(Millions of Dollars)

	FY 2001[1]	FY 2002[1]	FY 2003[1]	FY 2004[1]	FY 2005[1]	FY 2006[1]	FY 2007[2]
Local School Aid	4,172.8	3,889.5	4,141.1	4,356.3	4,447.5	4,517.0	4,587.6
Change from Prior Year		-6.80%	6.50%	5.20%	2.09%	1.56%	1.56%
Property Tax Relief	1,200.9	1,179.8	1,222.9	2,096.8	2,142.5	2,169.5	2,211.6
Change from Prior Year		-1.80%	3.70%	71.50%	2.18%	1.26%	1.94%
Higher Education	1,331.3	1,294.7	1,404.1	1,470.5	1,523.5	1,568.7	1,610.2
Change from Prior Year		-2.70%	8.40%	4.70%	3.60%	2.97%	2.65%
Medicaid	1,110.9	1,138.0	1,167.2	1,243.7	1,393.4	1,455.1	1,514.6
Change from Prior Year		2.40%	2.60%	6.60%	12.04%	4.43%	4.09%
Correction	547.2	582.1	594.0	619.4	620.9	584.0	594.9
Change from Prior Year		6.40%	2.00%	4.30%	0.25%	-5.96%	1.88%
Other	1,635.5	1,592.9	1,634.2	1,613.0	1,528.0	1,600.2	1,729.5
Change from Prior Year		-2.60%	2.60%	-1.30%	-5.27%	4.73%	8.08%
Total	9,998.6	9,677.0	10,163.5	11,399.7	11,655.8	11,894.5	12,248.5
Change from Prior Year		-3.20%	5.00%	12.20%	2.25%	2.05%	2.98%

(1) Actual, but unaudited, expenditures.

(2) Estimated, but unaudited, expenditures.

Source: State Budget Agency

Local School Aid. Funding for elementary and secondary education is the State's largest operating expense. Local school aid is payable from both the General Fund and PTR Fund and includes distributions for programs such as assessment and performance, as well as tuition support. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As a result of the tax restructuring legislation enacted in 2002, the State now provides approximately 85% of the school corporations' general fund budgets. *See* "Property Tax Relief."

Local school aid formula funding for tuition support on a school corporation-by-school corporation basis will increase 0.6% for Fiscal Year 2007. Local school aid expenditures for Fiscal Year 2007 are expected to total $4,587.6 million. *See* "Financial Results of Operations."

Property Tax Relief. Spending for property tax relief primarily consists of the Property Tax Relief Credit ("PTR Credits"), which has in recent years reduced local property taxes by 14% to 15%, and the Homestead Credit, which in the past reduced residential property taxes by 10%. Property tax relief is payable from the PTR Fund. Due to actions by the 2005 Indiana General Assembly, property tax relief appropriations for Fiscal Year 2007 will remain substantially unchanged from Fiscal Year 2006. Legislation passed in special legislative session in 2002 provides for a 60% credit for school corporations' general fund tax levy on local property taxes through a State-paid Property Tax Replacement Credit as of January 1, 2003. This measure effectively increases the percentage of local school corporations' general fund budgets paid by the State from approximately 66% to approximately 85%. Additionally, the legislation increased the Homestead Credit from 10% to 20%, beginning in 2003. *See* "Local School Aid."

Higher Education. Through the General Fund, the State supports seven higher education institutions, Ball State University, Indiana University, Indiana State University, Ivy Tech Community College of Indiana, Purdue University, University of Southern Indiana and Vincennes University. Higher education expenditures for Fiscal Year 2007 are expected to total $1,610.2 million, an increase of 2.7% from Fiscal Year 2006. Appropriations for higher education include money used to pay debt service and other amounts on qualified state university and college debt. *See* "Financial Results of Operations."

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

The aggregate principal amount of bonds and notes outstanding as of June 30, 2006, for each State university and college eligible for Fee Replacement Appropriations, and the amount of Fee Replacement Appropriations for Fiscal Years 2006 and 2007 are shown below.

Table 3
Schedule of Fee Replacement Debt

	Amount of Debt Outstanding June 30, 2006	Fiscal Year 2006 Fee Replacement Expenditures	Fiscal Year 2007 Fee Replacement Appropriations
Ball State University	$ 82,515,000	$ 7,824,168	$ 10,808,931
Indiana University [1]	456,141,717	55,201,058	64,071,550
Indiana State University	53,921,756	6,663,721	7,282,616
Ivy Tech Community College	157,440,000	11,757,203	13,119,374
Purdue University[2]	274,768,873	22,869,330	26,102,885
University of Southern Indiana	77,808,547	5,855,691	5,901,601
Vincennes University	44,012,360	3,170,681	3,861,825
Total	$1,146,608,253	$113,341,852	$131,148,782

[1] Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.
[2] Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: State Budget Agency

Medicaid. The fourth largest expenditure from the General Fund is Medicaid. It is a state/federal shared fiscal responsibility with the State General Fund supporting approximately 30.4% of the total program and federal funds comprising approximately 68.1%. The balance or 1.5% is paid through transferred and dedicated funds. For Fiscal Year 2006, the State experienced a modest annual growth rate of 5%. This modest growth rate is expected in Fiscal Year 2007 as well. Medicaid enrollment is one of the most significant drivers of Medicaid costs. Medicaid enrollment increased from 740,814 people in Fiscal Year 2002 to 838,136 people in Fiscal Year 2005, or at an average annual rate of 4.2%. Enrollment is expected to grow to 907,570 in Fiscal Year 2007.

Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. Appropriations for the Department of Correction include funds for incarceration, rehabilitation and parole programs. Expenditures for Correction for Fiscal Year 2006 were $584 million. Correction estimated expenditures for Fiscal Year 2007 total $595 million, an increase of 1.9% from Fiscal Year 2006.

Population is the most significant driver of Correction expenditures. Correctional population steadily increased from 21,540 in Fiscal Year 2001 to a projected 27,789 in Fiscal Year 2007.

Other. The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. Other Categories estimated expenditures for Fiscal Year 2007 from the General Fund total $1,729.5 million.

Expenditure Limits. In 2002, the General Assembly enacted a law that provides that the maximum annual percentage change in State government expenditures must be based on the percentage change in Indiana non-farm personal income during the past six calendar years. The law excludes expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgments and settlements, distributions of specified State tax revenue to local governments and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limit. The expenditure limit is applied to appropriations from the General Fund, the PTR Fund and the Rainy Day Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average increase in Indiana non-farm personal income and 6%. The legislation allows the state spending cap to be increased

or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The Budget Agency computed the spending growth quotient for Fiscal Years 2008 and 2009 to be 3.8%.

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, the Tuition Reserve, the Combined General and PTR Fund and the Medicaid Reserve and Contingency Account. Each of these funds is described below.

Rainy Day Fund. In 1982, the General Assembly established the Counter-Cyclical Revenue and Economic Stabilization Fund, commonly called the "Rainy Day Fund." One of three primary funds into which general purpose tax revenue is deposited, the Rainy Day Fund is essentially a State savings account that permits the State to build up a fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. No automatic withdrawal from the Rainy Day Fund has occurred; however, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time to time during periods of economic recession. In addition, the General Assembly has authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. *See* "Financial Results of Operations."

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenue is less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenue for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the PTR Fund. *See* Table 4 for Rainy Day Fund balances.

Tuition Reserve. The Tuition Reserve is a cash flow device that is intended to assure that the State has sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimates and establishes the Tuition Reserve for the ensuing Fiscal Year. *See* Table 4 for Tuition Reserve Fund balances.

Medicaid Reserve. In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. *See* Table 4 for Medicaid Reserve Fund balances.

Combined General and PTR Fund. The PTR Fund was created by statute in Fiscal Year 1973. It is funded from revenue from the State sales and use tax, a portion of individual income tax receipts and wagering taxes. The PTR Fund is used to (a) replace local property tax levies ("PTR Credits"), which were reduced through PTR Credits under the same statute that created the PTR Fund, and (b) fund local school aid. To the extent the PTR Fund does not have sufficient revenue to make authorized payments, General Fund transfers must be made to the PTR Fund.

The General Fund and the PTR Fund are the primary funds into which general purpose tax revenue, or Operating Revenue, is deposited or transferred. It is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenue and discretionary spending, especially for local school aid and property tax relief. As a result, the General Fund and the PTR Fund are sometimes described in this Appendix A as a single, combined fund.

Financial Results of Operations

The State closed Fiscal Year 2006 with combined balances of $1,089.3 million in the General and PTR funds, which was 9.0% of that Fiscal Year's operating revenue. This combined balance includes a General Fund balance of $410.6 million, a Tuition Reserve balance of $316.6 million, and a Rainy Day Fund balance of $328.1 million. It also includes $34.0 million in a re-established Medicaid Reserve. Combined balances for Fiscal Year 2006 increased by $340 million over the Fiscal Year 2005 level which was only 6.5% of that year's operating revenue.

Two major accomplishments were achieved during Fiscal Year 2006, 1) the first balanced budget in eight years and 2) the first time since 2003 that the State's combined balance exceeded the payment delays still owed to schools and local units of government and the loan received from the Public Deposit Insurance Fund. Revenues exceeded expenditures in Fiscal Year 2006 by $370.4 million. By contrast, Fiscal Year 2005 ended with expenditures exceeding revenue by $201 million. In Fiscal Year 2006, $156.4 million of the payment delay to schools was paid back with another $160 million paid in Fiscal Year 2007. An additional $176 million of payment delays to local units of government and universities is scheduled to be paid back in Fiscal Year 2007.

Revenue Forecast for Fiscal Years 2007, 2008 and 2009

The Technical Forecast Committee (the "Forecast Committee") presented a forecast of State revenue for Fiscal Years 2007, 2008, and 2009 to the State Budget Committee on December 14, 2006. Under this forecast, Fiscal Year 2007 State revenue will increase by $297.9 million (or 2.5%) over Fiscal Year 2006 actual revenues. Fiscal Year 2008 State revenue is projected to increase $514.9 million (or 4.2%) over Fiscal Year 2007 forecast revenues and Fiscal Year 2009 State revenue is projected to increase $574.8 million (or 4.5%) over Fiscal Year 2008.

Forecast revenue follows:

	FY 2007[1]	FY 2008[1]	FY2009[1]
Sales Tax	5,365.7	5,598.1	5,858.7
Change from Prior Year	2.7%	4.3%	4.7%
Individual Income	4,494.6	4,736.9	4,993.1
Change from Prior Year	4.0%	5.4%	5.4%
Corporate Income	894.9	901.0	923.1
Change from Prior Year	-3.3%	0.7%	2.5%
Wagering Tax	626.7	656.8	688.0
Change from Prior Year	6.2%	4.8%	4.8%
Other[2]	976.6	980.6	985.3
Change from Prior Year	-2.0%	0.4%	0.5%
Total	12,358.5	12,873.4	13,448.2
Change from Prior Year	2.5%	4.2%	4.5%

(1) Revenues are those projected by the Technical Forecast Committee on December 14, 2006.
(2) *See* "General Fund and PTR Fund Revenue Sources—Other Operating Revenue."

Source: State Budget Agency

Combined Balance Statements

Table 4 sets forth the Budget Agency's unaudited end-of-year combined balance statements and estimates and projections, including revenue and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency's "working" statements may differ from the results included in the 2006 Financial Report or the Auditor of State's comprehensive annual financial reports for other Fiscal Years. Forecasted revenue was developed by the Technical Forecast Committee, and actual revenue

may be higher or lower than forecasted. Estimates of other resources and uses were developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Years 2006 and 2007.

Table 4
General Fund and Property Tax Replacement Fund
Combined Statement of Actual and Estimated Unappropriated Reserve
(Millions of Dollars)

	Actual FY2001	Actual FY2002	Actual FY2003	Actual FY2004	Actual FY2005	Actual FY2006	Estimated FY2007[1]
Resources							
Working Balance on July 1	832.6	18.6	0	136.6	0.2	118.8	410.6
Current Year Resources							
Forecast Revenue	9,052.0	8,708.9	9,880.1	10,619.9	11,436.4	12060.6	12,358.5
DSH Revenue	70.9	87.0	65.0	64.2	52.0	82.0	65.1
Tax Amnesty[2]	-	-	-	-	-	228.8	-
Quality Assessment Fee	-	-	-	-	-	62.7	19.9
Rainy Day Fund Interest and Repayment of Loans	-	-	-	-	-	11.6	14.6
Other Revenue Sources of Transfers In							
Jobs & Growth Tax Relief Reconciliation Act of 2003 (including Medicaid)	-	-	103.4	234.3	-	-	-
Transfer from Lottery & Gaming Surplus Acct (BIF)	-	200.0	175.0	-	-	-	-
Transfer from Medicaid Reserve to General Fund	103.4	100.0	-	-	-	-	-
Transfer from Dedicated Fund Balances	-	396.3	222.0	320.2	245.4	-	1.2
Transfer from Tuition Reserve	-	-	-	14.5	-	-	-
Transfer From (To) Rainy Day Fund	46.3	277.1	-	44.3	-87.2	-	-100.0
Total Current Year Resources	9,272.6	9,769.3	10,445.5	11,297.4	11,646.6	12,445.7	12,359.3
Total Resources	10,105.2	9,787.9	10,445.5	11,434.0	11,646.8	12,564.5	12,769.9
Uses: Appropriations, Expenditures and Reversions							
Appropriations							
Budgeted Appropriations	10,159.3	10,211.9	11,000.1	11,280.8	11,522.0	12,076.4	12,244.8
Adjustments to Appropriations[3]	-15.7	93.1	22.7	47.5	-4.1	-29.3	-27.0
Enrolled Acts 2006						25.2	90.7
Deficiency Appropriations	66.8	0.1	19.4	-	-	-	-
Appropriations Transfer (FY 2000 capital appropriations)	-88.3	-	-	-	-	-	-
Medicaid Shortfall	58.5	-	-	-	117.0	-	-
Higher Education, HEA 1196 – 2002	-	-	-29.0	-	-	-	-
K-12 Education, HEA 1196 – 2002	-	-	-119.1	-	-	-	-
Teachers' Retirement Fund	-	-	-	190.0	190.0	-	
Tuition Support Deficiency	-	-	-	-	20.0	20.1	56.1
Total Appropriations	10,180.6	10,305.1	10,894.0	11,518.3	11,844.9	12,092.4	12,364.6
Other Expenditures and Transfers							
Transfer to Lottery and Gaming Surplus Acct (BIF) (MVET)	-	-	131.8	-	-	-	-
Transfer to Tuition Reserve	-	-	40.0	-	-	26.1	-
Transfer to Medicaid Contingency						10.0	
Local Option Income Tax Distributions						37.5	35.2

Undistributed PTRC and Homestead Credit	-	-	-101.1	-	-	-	-
Tuition Support Adjustments	-	-	-	-7.1	-	-	-
PTRC and Homestead Credit Adjustments	-	-	-	-18.4	-101.0	-61.9	12.9
Judgments and Settlements[4]	7.0	3.8	6.2	5.4	6.1	5.9	8.0
Total Appropriations and Expenditures	10,187.6	10,308.9	10,970.9	11,498.2	11,750.0	12,110.0	12,420.7
Payment Delays							
Higher Education Allotment	-	-94.2	-2.2	-2.2	-3.9	-	40.0
Tuition Support Distribution	-	-279.5	-20.0	-0.6	-	156.4	160.1
Property Tax Replacement Credit	-	-	-314.5	-	-	-	136.5
Reversions[5]	-102.9	-145.1	-323.4	-63.4	-218.1	-124.9	-130.3
Total Net Uses	10,084.7	9,790.1	10,310.7	11,431.9	11,528.0	12,141.5	12,627.0
Auditor's Adjustment	1.9	-2.2	-1.8	1.9	-	0.8	-
General Fund Reserve Balance at June 30	18.6	0	136.6	0.2	118.8	410.6	128.4
Reserved Balances							
Medicaid Reserve	100.0	-	-	-	24.0	34.0	34.0
Tuition Reserve	265.0	265.0	305.0	290.5	290.5	316.6	316.6
Rainy Day Fund	526.0[6]	269.2[6] (6)	278.5[6]	242.2[6]	316.5[7]	328.1[7]	442.7[7]
Total Combined Balances	909.6	534.2	720.1	532.8	749.8	1,089.3	921.7
Payment Delay Liability	-	-373.8	-710.5	-713.3	-726.8	-622.1	-285.5
Combined Balance as a Percent of Operating Revenue	10.00%	6.10%	7.20%	5.00%	6.50%	9.00%	7.40%

*Totals may not add as a result of rounding.

(1) Revenues are those projected by the Technical Forecast Committee on December 14, 2006; appropriations are those authorized by the 2005 General Assembly.
(2) Net of $15.8 million expenses.
(3) Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total.
(4) Represents the estimated cost to the State of judgments and other legal and equitable claims. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. *See* "LITIGATION."
(5) $55.3 million of reversions in FY2007 represent capital reversions, previously reported as reverting in FY2005.
(6) Includes loans to local governments authorized by the General Assembly. The loans are illiquid.
(7) Net of outstanding loans to local governments.

Source: State Budget Agency

Toll Road Lease

In 2006, the General Assembly enacted legislation authorizing the Indiana Finance Authority to lease the Indiana Toll Road to a private entity to operate for a term not to exceed 75 years. A lease agreement with ITR Concession Company LLC was signed in April 2006 and the transaction was closed on June 29, 2006. The revenues from the lease, $3.8 billion (net of expenses and the bond repayments), are being held in a trust fund or being used to fund nearly 200 statewide transportation and economic growth projects throughout the State.

STATE INDEBTEDNESS

Constitutional Limitations on State Debt

Under Article X, Section 5 of the State constitution, the State may not incur indebtedness except to meet casual deficits in revenue; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the State constitution. *See* "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, however, together with State university and college debt and what are described below as "contingent obligations." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. *See* "Obligations Payable from Possible State Appropriations—Authorized but Unissued Debt."

In 2005, the General Assembly enacted legislation establishing the Indiana Finance Authority, a body politic and corporate, separate from the State. The Indiana Finance Authority is required, after consulting with the Treasurer of State, the Indiana Bond Bank, the Budget Agency and the Indiana Commission for Higher Education, to establish and periodically update a State debt management plan.

Obligations Payable from Possible State Appropriations

The General Assembly has created certain financing entities, including the Indiana Finance Authority and the Indiana Bond Bank, each of which is a body politic and corporate, separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance various capital projects. Certain agencies of the State, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the State), have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bonds issued by any such financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and other obligations do not constitute indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

Indiana Finance Authority. Before 2005, there had been numerous bodies corporate and politic of the State, with separate decision making and borrowing authority, that issued bonds and otherwise accessed the financial markets. On May 15, 2005, to provide economic efficiencies and management synergies and to enable the State to communicate, with a single voice, with the various participants in the financial markets, the Indiana Development Finance Authority, the State Office Building Commission, the Indiana Transportation Finance Authority and the Recreational Development Commission were consolidated into the Indiana Finance Authority. As the successor agency, the Indiana Finance Authority has assumed responsibility for the financing of certain buildings, highways, aviation facilities and recreation facilities.

For a description of other powers and responsibilities of the Indiana Finance Authority, including its authority to issue other debt, *see* "Contingent Obligations—Toll Road" and "—Economic Development" and Table 8.

Buildings. The Indiana Finance Authority is authorized (and its predecessor, the State Office Building Commission, had been authorized) to issue revenue bonds, payable from lease rentals under use and occupancy agreements with various State agencies, to finance or refinance the cost of acquiring, constructing or equipping buildings, structures, improvements or parking areas for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing buildings, structures or improvements for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing buildings, structures or improvements for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing buildings, structures or improvements for the care, maintenance or treatment of adults or children with mental illness, developmental disabilities, addictions or other medical or rehabilitative needs; or (f) providing the infrastructure of a State-wide wireless public safety communications system. Lease rentals under the use and occupancy agreements are payable primarily from possible State appropriations. *See* "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Buildings."

The Indiana Finance Authority also provides (and its predecessor, the State Office Building Commission, had provided) short-term, or construction, financing for authorized projects through the issuance of commercial paper, in an aggregate amount not to exceed $75 million, payable from proceeds of its revenue bonds.

Highways. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from lease rentals under lease agreements with the Indiana Department of Transportation, to finance or refinance the cost of construction, acquisition, reconstruction, improvement or extension of the State's highways, bridges, streets, roads or other public ways. Lease rentals under the lease agreements are payable primarily from possible State appropriations. *See* "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Highways."

In 2005, legislation was enacted that authorizes the Indiana Finance Authority to issue grant anticipation revenue bonds to finance highway projects eligible for federal highway revenues. However, none has been issued to date.

Aviation Facilities. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from the revenues pledged thereto, to finance or refinance improvements related to airports or aviation related property or facilities.

Pursuant to this authority, the Indiana Transportation Finance Authority issued its revenue bonds to finance and refinance (a) improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport and (b) an aviation technology center at the Indianapolis International Airport. The bonds are payable from lease rentals under lease agreements with the Indianapolis Airport Authority. Lease rentals under the lease agreements are payable primarily from possible State appropriations. *See* "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Aviation Facilities."

Recreation Facilities. The Indiana Finance Authority is authorized (and its predecessor, the Recreational Development Commission, had been authorized) to issue revenue bonds, payable from the revenues pledged thereto, to finance or refinance the costs of the acquisition, construction, renovation, improvement or equipping of facilities for the operation of public parks.

Pursuant to this authority, the Recreational Development Commission issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various lodging and other facilities for public parks in the State. The bonds are payable from lease rentals under use and occupancy agreements with the State's Department of Natural Resources. The lease rentals under the use and occupancy agreements are payable primarily from possible State appropriations. *See* "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Recreation Facilities."

Bond Bank. The Indiana Bond Bank issued its revenue bonds, payable from possible State appropriations, to finance or refinance certain State interests or initiatives, including the State's Animal Disease and Diagnostic Laboratory ("ADDL") at Purdue University, West Lafayette, and the Columbus Learning Center ("CLC"), an educational facility to be used by a number of State post-secondary educational institutions to provide services in

South Central Indiana. *See* "Table 5—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations—Bond Bank" and "Table 8—Schedule of Long Term Debt—Contingent Obligations—Bond Bank."For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, *see* "Contingent Obligations—Indiana Bond Bank" and Table 8.

Schedule of Long Term Debt. Table 5 lists, by type of financing, long-term debt that is subject to possible State appropriations as of June 30, 2006. *See* "Debt Issued in Fiscal Year 2007" and "Authorized but Unissued Debt."

Table 5
Schedule of Long Term Debt
Obligations Payable from Possible State Appropriations

Type/Series	Original Par Amount	Ending Balance 6/30/2005	(Redeemed)/ Issued	Ending Balance 6/30/2006
STATE BUILDINGS				
Government Center Parking Facilities				
Series 1990A	$26,669,824	$8,077,616	($490,235)	$7,587,381
Series 2003A	26,735,000	26,110,000	(2,835,000)	23,275,000
Subtotal	$53,404,824	$34,187,616	($3,325,235)	$30,862,381
Government Center North				
Series 1990B	$77,123,542	$25,055,478	($1,520,392)	$23,535,086
Series 2003B	73,205,000	73,205,000	(5,405,000)	67,800,000
Subtotal	$150,328,542	$98,260,478	($6,925,392)	$91,335,086
Government Center South				
Series 1990C	$18,063,800	$5,469,200	($331,240)	$5,137,960
Series 1990D	110,675,000	53,710,000	0	53,710,000
Series 2000B	43,400,000	22,100,000	(7,400,000)	14,700,000
Series 2003C	7,835,000	7,780,000	(600,000)	7,180,000
Subtotal	$179,973,800	$89,059,200	($8,331,240)	$80,727,960
Other Facilities				
Series 1995A	$54,025,000	$545,000	($545,000)	$0
Series 1995B	47,975,000	20,900,000	(1,590,000)	19,310,000
Series 1998A	93,020,000	77,205,000	(4,860,000)	72,345,000
Series 1999A	96,785,000	33,270,000	(1,825,000)	31,445,000
Series 2000A	44,800,000	38,200,000	(1,800,000)	36,400,000
Series 2001A	66,600,000	62,900,000	(2,000,000)	60,900,000
Series 2002A	128,110,000	60,715,000	0	60,715,000
Series 2003A	83,530,000	47,085,000	(95,000)	46,990,000
Series 2003B	31,930,000	31,930,000	0	31,930,000
Series 2003C	55,075,000	55,075,000	0	55,075,000
Series 2003D	20,475,000	20,475,000	0	20,475,000
Series 2004A	46,180,000	46,180,000	0	46,180,000
Series 2004B	61,890,000	61,890,000	0	61,890,000
Series 2004C	33,950,000	33,950,000	0	33,950,000
Series 2004D	33,995,000	33,995,000	0	33,995,000
Series 2004E	57,005,000	57,005,000	0	57,005,000
Subtotal	$955,345,000	$681,320,000	($12,715,000)	$668,605,000

TOTAL STATE BUILDINGS	$1,339,052,166	$902,827,294	($31,296,867)	$871,530,427
HIGHWAY REVENUE BONDS				
Series 1990A	$72,498,391	$29,766,805	($706,308)	$29,060,497
Series 1992A	74,035,000	35,285,000	0	35,285,000
Series 1993A	193,531,298	116,166,298	(7,230,000)	108,936,298
Series 1996B	27,110,000	17,415,000	(3,120,000)	14,295,000
Series 1998A	175,360,000	120,095,000	(4,410,000)	115,685,000
Series 2000	269,535,000	102,855,000	0	102,855,000
Series 2003A	431,585,000	327,370,000	(8,815,000)	318,555,000
Series 2004A	320,550,000	320,550,000	0	320,550,000
Series 2004B	147,345,000	147,345,000	0	147,345,000
Series 2004C	146,080,000	146,080,000	0	146,080,000
TOTAL HIGHWAYS	$1,857,629,689	$1,362,928,103	($24,281,308)	$1,338,646,795
AVIATION FACILITIES				
Airport Facilities Bonds				
Series 2004A	$56,025,000	$56,025,000	$0	$56,025,000
Series 2004B	79,825,000	79,825,000	0	79,825,000
Series 2004C	68,700,000	68,700,000	0	68,700,000
Subtotal	$204,550,000	$204,550,000	$0	$204,550,000
Aviation Technology Bonds				
Series 2002	$10,095,000	$9,285,000	($560,000)	$8,725,000
Subtotal	$10,095,000	$9,285,000	($560,000)	$8,725,000
TOTAL AVIATION FACILITIES	$214,645,000	$213,835,000	($560,000)	$213,275,000
RECREATIONAL FACILITIES				
Series 1997	$6,600,000	$5,075,000	($255,000)	$4,820,000
Series 2002	14,400,000	14,400,000	(280,000)	14,120,000
Series 2004	12,780,000	12,780,000	0	12,780,000
TOTAL RECREATION FACILITIES	$33,780,000	$32,255,000	($535,000)	$31,720,000
BOND BANK				
Series 1998B (ADDL)	$10,830,000	$5,805,000	($790,000)	$5,015,000
TOTAL BOND BANK	$10,830,000	$5,805,000	($790,000)	$5,015,000
TOTAL ALL BONDS	$3,455,936,855	$2,517,650,397	($57,463,175)	$2,460,187,222

Source: Indiana Finance Authority (as of June 30, 2006)

Scheduled Principal and Interest Payments. Table 6 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased) as of June 30, 2006. *See* "Debt Issued in Fiscal Year 2007" and "Authorized but Unissued Debt."

Table 6
Scheduled Principal and Interest Payments
Obligations Payable from Possible State Appropriations

Type/Series	FY 2007	FY 2008	FY2009	FY2010	Thereafter
STATE BUILDINGS					
Government Center Parking Facilities					
Series 1990A	$1,948,050	$1,948,050	$1,948,050	$468,050	$8,453,425
Series 2003A	3,702,775	3,696,763	3,696,013	3,676,763	12,187,031
Subtotal	$5,650,825	$5,644,813	$5,644,063	$4,144,813	$20,640,456
Government Center North					
Series 1990B	$6,041,880	$6,041,880	$6,041,880	$1,451,880	$26,222,280
Series 2003B	8,633,928	8,580,178	8,567,178	8,547,803	51,140,986
Subtotal	$14,675,808	$14,622,058	$14,609,058	$9,999,683	$77,363,266
Government Center South					
Series 1990C	$1,317,090	$1,317,090	$1,317,090	$317,090	$5,726,705
Series 1990D	10,976,205	10,953,868	10,934,615	10,920,515	21,761,403
Series 2000B[(1)]	976,500	1,065,000	1,053,000	1,041,000	15,714,000
Series 2003C	877,625	875,488	876,288	873,138	5,214,769
Subtotal	$14,147,420	$14,211,446	$14,180,993	$13,151,743	$48,416,876
Other Facilities					
Series 1995B	$1,206,875	$1,206,875	$1,206,875	$3,081,406	$21,438,281
Series 1998A	8,530,004	8,538,279	8,524,424	8,524,231	59,474,633
Series 1999A	5,398,750	5,393,594	5,392,457	5,379,500	21,677,681
Series 2000A[(1)]	3,979,500	3,865,500	3,846,000	3,820,500	37,780,500
Series 2001A[(1)]	5,637,321	5,706,425	5,650,670	5,701,540	72,771,740
Series 2002A	7,622,418	7,618,499	7,601,597	7,591,828	54,944,781
Series 2003A	5,095,203	5,065,465	5,064,090	5,070,903	47,676,955
Series 2003B	2,555,584	2,555,123	2,551,260	2,553,310	37,946,785
Series 2003C[(1)]	3,243,306	3,304,500	3,304,500	3,304,500	81,603,250
Series 2003D[(1)]	1,424,000	3,155,000	3,107,750	1,164,500	24,092,250
Series 2004A	2,470,875	2,479,675	2,478,375	2,481,894	56,204,894
Series 2004B	3,249,225	3,249,225	3,249,225	3,249,225	85,363,275
Series 2004C	1,779,285	1,779,285	1,779,285	1,779,285	47,702,238
Series 2004D	1,576,913	1,576,913	2,665,338	2,660,963	47,514,620
Series 2004E	2,694,145	2,694,145	4,501,620	4,491,295	80,218,586
Subtotal	$56,463,404	$58,188,503	$60,923,466	$60,854,879	$776,410,470
TOTAL STATE BUILDINGS	$90,937,457	$92,666,820	$95,357,580	$88,151,117	$922,831,068
HIGHWAY REVENUE BONDS					
Series 1990A	$4,095,288	$3,940,288	$3,490,288	$3,694,075	$30,725,550
Series 1992A	2,399,380	2,399,380	2,399,380	2,399,380	44,312,850
Series 1993A	12,608,850	12,620,300	12,573,200	12,621,413	139,960,500
Series 1996B	3,958,550	3,947,125	3,948,375	3,930,875	0
Series 1998A	16,789,423	16,903,123	17,019,073	15,886,744	98,150,725
Series 2000	5,557,400	5,557,400	5,557,400	5,557,400	174,673,924
Series 2003A	26,370,509	26,381,671	26,380,696	26,347,146	438,466,181
Series 2004A	16,752,103	16,752,103	16,752,103	16,752,103	595,939,783
Series 2004B	8,192,175	8,192,175	8,192,175	8,192,175	215,900,713
Series 2004C	7,858,988	7,858,988	7,858,988	9,111,863	216,518,131
TOTAL HIGHWAYS	$104,582,666	$104,552,553	$104,171,678	$104,493,173	$1,954,648,356

AVIATION FACILITIES					
Airport Facilities Bonds					
Series 2004A[(1)]	$3,361,500	$3,361,500	$3,361,500	$3,361,500	$74,139,750
Series 2004B[(1)]	4,789,500	4,789,500	4,789,500	4,789,500	105,618,250
Series 2004C[(1)]	8,002,000	16,783,000	16,567,000	16,363,500	24,102,000
Subtotal	$16,153,000	$24,934,000	$24,718,000	$24,514,500	$203,860,000
Aviation Technology Bonds					
Series 2002	$952,614	$952,233	$954,728	$950,033	$7,634,924
Subtotal	$952,614	$952,233	954,728	950,033	$7,634,924
TOTAL AVIATION FACILITIES	$17,105,614	$25,886,233	$25,672,728	$25,464,533	$211,494,924
RECREATIONAL FACILITIES					
Series 1997	$523,555	$519,805	$520,430	$520,111	$4,657,849
Series 2002	1,333,118	1,396,105	1,454,545	1,488,361	13,262,626
Series 2004	502,439	863,561	1,116,808	1,129,858	14,551,136
TOTAL RECREATION FACILITIES	$2,359,112	$2,779,471	$3,091,783	$3,138,330	$32,471,611
BOND BANK					
Series 1998B (ADDL)	$1,039,845	$1,042,698	$1,043,548	$1,042,598	$1,566,243
TOTAL BOND BANK	$1,039,845	$1,042,698	$1,043,548	$1,042,598	$1,566,243
TOTAL ALL BONDS	$216,024,694	$226,927,775	$229,337,317	$222,289,749	$3,123,012,202

(1) Debt service on variable rate debt is determined by assuming an interest rate of 6%.

Source: Indiana Finance Authority (as of June 30, 2006)

Debt Ratios. The ratios of outstanding debt subject to possible State appropriation to population and personal income for the past ten years are reflected in Table 7. The ratios do not reflect any State university or college indebtedness or contingent obligations.

Table 7
Ratios of Outstanding Debt Subject to Possible Appropriation to Population and Personal Income

Fiscal Year	Population	Personal Income[1]	Outstanding Debt Subject to Appropriation[2]	Debt/Capita[3]	Debt/Income[4]
1996	5,834,908	$132,103	$1,119,538	$192	0.9%
1997	5,872,370	138,794	1,116,718	190	0.9
1998	5,907,617	149,336	1,240,093	210	0.8
1999	5,942,901	154,842	1,228,373	207	0.9
2000	6,080,485	165,285	1,569,341	258	0.9
2001	6,126,470[5]	169,204	1,624,467	265	1.1
2002	6,156,913[5]	172,592	1,713,027	278	1.1
2003	6,195,643[5]	178,327	1,774,081	286	1.0
2004	6,237,569[5]	188,065	2,494,157	400	1.3
2005	6,266,019[5]	195,372[5]	2,517,650	402	1.3
2006	6,313,520[5]	205,512[5]	2,460,187	390	1.2

[1] In millions.
[2] In thousands.
[3] According to Moody's 2005 State Debt Medians, the median debt per capita for all states was about $754.
[4] According to Moody's 2005 State Debt Medians, the median percentage for all states was about 2.5%.
[5] Estimated.

Source: Population: United States Bureau of Census. Personal Income: United States Department of Commerce, Bureau of Economic Analysis. Outstanding Debt: Indiana Finance Authority.

Debt Issued in Fiscal Year 2007. Since June 30, 2006, the following debt was issued:

- $62,900,000 Indiana Finance Authority Facilities Revenue Bonds, 2006A, (State of Indiana Forensic and Health Sciences Laboratories), to finance the State Forensic and Health Sciences Laboratories.

- $642,300,000 Indiana Finance Authority Highway Revenue Refunding Bonds, Series 2007A, to refund portions of outstanding Indiana Transportation Finance Authority Highway Revenue Bonds, Series 1996B, 1998A, 2000, 2003A, and 2004A.

- $211,525,000 Indiana Finance Authority Lease Appropriation Bonds (Stadium Bonds), Series 2007A, to finance a portion of a multi-purpose, retractable roof stadium which will be home to the National Football League's Indianapolis Colts.

Authorized but Unissued Debt. The General Assembly has authorized the Indiana Finance Authority (as successor to the State Office Building Commission) to issue bonds to finance additional State facilities, including:

(a) Two additional regional mental health facilities; and

(b) State-wide wireless public safety communications network.

In addition, legislation was enacted in 2005 that authorizes the Indiana Finance Authority to issue additional revenue bonds to finance construction of a stadium (see "Debt Issued in FY 2007") and expansion of a convention center in Indianapolis and to provide funds for research and technology grants and loans. *See* "Contingent Obligations—Economic Development."

The Indiana Finance Authority may initially provide short-term, or construction, financing for these facilities through its commercial paper program. The Indiana Finance Authority monitors refinancing opportunities for its revenue bonds, and may issue refunding bonds from time to time to restructure outstanding indebtedness or achieve debt service savings.

Contingent Obligations

Certain State-authorized entities, including the Indiana Bond Bank and Indiana Finance Authority, may issue obligations that, in certain circumstances, may require the entity to request an appropriation from the General Assembly to fund debt service on the obligations. The General Assembly is not required to make any such appropriations. Such obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

In 2005, legislation was enacted that requires review by the Budget Committee and approval by the Budget Director of (a) the issuance by the Indiana Bond Bank or the Indiana Finance Authority of any indebtedness that establishes a procedure for requesting an appropriation from the General Assembly to restore a debt service or other fund to required levels or (b) the execution by the Indiana Bond Bank or the Indiana Finance Authority of any other agreement that creates a moral obligation of the State to pay any indebtedness issued by the Indiana Bond Bank or the Indiana Financing Authority.

Indiana Bond Bank. The Indiana Bond Bank (the "Bond Bank"), a body corporate and politic, is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The Bond Bank is empowered to issue bonds or notes, payable solely from revenue and funds that are specifically allocated for such purpose, and loan the proceeds therefrom to local governments and other qualified entities.

To assure maintenance of the required debt service reserve in any reserve fund established for Bond Bank bonds or notes, the General Assembly may, but is not obligated to, appropriate to the Bond Bank for deposit in any such reserve funds the sum that is necessary to restore any such reserve funds to the required debt service reserve.

Bonds or notes issued by the Bond Bank for which such a debt service reserve is established are considered "moral obligation bonds". However, bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security for bonds issued by the Bond Bank, and a debt service reserve fund restoration appropriation would only be requested in the event that the particular designated sources were insufficient.

The total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is limited to $1.0 billion plus (a) up to $200 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to $30 million for certain qualified entities that operate as telephone cooperative corporations. However, these limits do not apply to bonds or notes not secured by a reserve fund eligible for State appropriations.

For a list of Bond Bank bonds secured by a reserve fund eligible for State appropriations, *see* "Table 8—Schedule of Long Term Debt—Contingent Obligations—Bond Bank."

Toll Road. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Transportation Finance Authority, had been authorized) to issue revenue bonds, payable from tolls and other revenues derived from the ownership and operation of toll roads, to finance or refinance the cost of any toll road projects.

Pursuant to this authority, the Indiana Transportation Finance Authority and its predecessors issued their revenue bonds (the "Toll Road Bonds") to finance and refinance the construction and improvement of the 157-mile Indiana East-West Toll Road (the "Toll Road") in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. These bonds were redeemed on June 29, 2006 and are no longer outstanding. *See* "Table 8—Schedule of Long Term Debt—Contingent Obligations—Toll Road."

In 2006, the General Assembly enacted legislation authorizing the Indiana Finance Authority to lease the Toll Road to a private entity to operate for a term not to exceed 75 years. A lease agreement with ITR Concession Company LLC was signed in April 2006 and the transaction was closed on June 29, 2006. On June 29, 2006 a portion of the $3.8 billion in revenues from the lease was applied to pay off all of the Toll Road Bonds. See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS—Toll Road Lease."

Economic Development. The Indiana Finance Authority is authorized (and its predecessor, the Indiana Development Financing Authority, had been authorized) to issue revenue bonds to finance or refinance (a) industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) educational facility projects; (c) farming and agricultural enterprises; (d) environmental pollution prevention and remediation; (e) child care facilities; and (f) broadband development projects.

Pursuant to this authority, the Indiana Development Finance Authority issued its revenue bonds to finance and refinance a wide variety of projects. The bonds (except the Steel Dynamics Bonds, Qualitech Bonds and Heartland Bonds (described below)) are payable solely from the revenues pledged thereto, are not in any respect a general obligation of the State and are not payable in any manner from revenue raised by taxation.

The Indiana Development Finance Authority had issued its economic development revenue bonds for Steel Dynamics, Inc. (the "Steel Dynamics Bonds"), Qualitech Steel Corporation (the "Qualitech Bonds") and Heartland Steel, Inc. (the "Heartland Bonds"). Each of these bond issues was secured in part by a debt service reserve fund established exclusively for such bond issue. The Indiana Development Finance Authority agreed to request appropriations from the General Assembly to fund debt service on the Steel Dynamics Bonds, the Qualitech Bonds and the Heartland Bonds under certain circumstances. However, the State was not required to make any appropriations to fund debt service on the Steel Dynamics Bonds, the Qualitech Bonds or the Heartland Bonds. *See* "Table 8—Schedule of Long Term Debt—Contingent Obligations—Economic Development."

Qualitech Steel, the obligor on the Qualitech Bonds, and Heartland Steel, the obligor on the Heartland Bonds, were bankrupt, and a bankruptcy court had relieved them of their obligations to make debt service payments on their indebtedness. As a result, the debt service on the Qualitech Bonds and the Heartland Bonds was being funded from appropriations by the General Assembly. However, on August 1, 2006 the Qualitech Bonds and Heartland Bonds were fully redeemed by the Indiana Finance Authority and are no longer outstanding.

In 2005, legislation was enacted that authorizes the Indiana Finance Authority to issue revenue bonds and loan the proceeds thereof to the Indiana Stadium and Convention Building Authority for the purpose of financing the acquisition and construction of a stadium and the expansion of a convention center in Indianapolis. The legislation authorizes the Indiana Stadium and Convention Building Authority to lease such capital improvements to a State agency pursuant to a lease, which requires the State agency: (1) to seek biennial appropriations from the General Assembly in an amount sufficient to pay rent equal to the debt service due on such bonds, only if: (a) the amount of such rent is fair and reasonable; and (b) such capital improvements are available for use and occupancy; and (2) to pay, from such appropriated amounts, rent sufficient to pay such debt service, only if certain local tax revenues expected to satisfy debt service are insufficient. In addition, the Indiana Finance Authority, in connection with the issuance of such revenue bonds, may establish a debt service reserve fund and a procedure for requesting appropriations from the General Assembly to restore the debt service reserve fund to required levels. The Indiana Finance Authority has issued $400,000,000 of such revenue bonds for the stadium project and $40,000,000 of bond anticipation notes for the convention center expansion project and is expected to issue additional revenue bonds during the next three years in an additional principal amount of approximately $500,000,000, the proceeds of which will be used, together with other available funds, for the purpose of financing the remainder of the cost of those projects and refunding such bond anticipation notes.

In addition, legislation was enacted in 2005 that authorizes the Indiana Finance Authority to issue up to $1.0 billion of its revenue bonds, payable from the revenues pledged thereto, to provide funds for research and technology grants and loans. The Indiana Finance Authority may establish a debt service fund or reserve fund for the bonds, to which the General Assembly may, if requested, appropriate funds necessary to pay debt service or restore the required debt service reserve.

Schedule of Long Term Debt. Table 8 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2006. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund.

Table 8
Schedule of Long Term Debt
Contingent Obligations

Type/Series	Original Par Amount	Ending Balance 6/30/2005	(Redeemed)/ Issued	Ending Balance 6/30/2006
TOLL ROAD				
Series 1985	$256,970,000	$26,200,000	($26,200,000)	-
Series 1987	184,745,000	44,340,000	(44,340,000)	-
Series 1993	76,075,000	10,535,000	(10,535,000)	-
Series 1996	134,795,000	123,475,000	(123,475,000)	-
TOTAL TOLL ROAD	$652,585,000	$204,550,000	($204,550,000)	-
BOND BANK Special Program Pool				
Series 1995B	$13,280,000	$10,185,000	($445,000)	$9,740,000
Series 1997A	6,295,000	5,190,000	(215,000)	4,975,000
Series 1997C	5,010,000	4,540,000	(250,000)	4,290,000
Series 1998A	6,485,000	5,540,000	(200,000)	5,340,000
Series 2000A	31,495,000	29,305,000	(29,305,000)	0
Series 2000A (Refunding)	32,860,000	8,245,000	(1,395,000)	6,850,000
Series 2001A (Refunding)	20,840,000	15,720,000	(1,375,000)	14,345,000
Series 2001A	7,055,000	5,465,000	(585,000)	4,880,000
Series 2001B	9,500,000	8,070,000	(520,000)	7,550,000
Series 2002A	42,910,000	40,545,000	(1,230,000)	39,315,000
Series 2002C	3,940,000	3,005,000	(450,000)	2,555,000
Series 2002D	60,000,000	56,630,000	(1,200,000)	55,430,000
Series 2002E	10,155,000	9,705,000	(275,000)	9,430,000
Series 2003A	40,385,000	40,385,000	0	40,385,000
Series 2003B	8,885,000	8,110,000	(390,000)	7,720,000
Series 2003C	10,425,000	8,745,000	(800,000)	7,945,000
Series 2003D[1] (CLC)	27,515,000	27,515,000	0	27,515,000
Series 2003E	36,530,000	36,080,000	(535,000)	35,545,000
Series 2003F-1	17,155,000	15,075,000	(1,290,000)	13,785,000
Series 2003F-2	1,175,000	1,155,000	(25,000)	1,130,000
Series 2004A	17,210,000	17,050,000	(510,000)	16,540,000
Series 2004B	17,590,000	17,265,000	(780,000)	16,485,000
Series 2004C	35,010,000	35,010,000	0	35,010,000
Series 2004D	29,275,000	29,275,000	(290,000)	28,985,000
Series 2005A	14,790,000	14,790,000	(390,000)	14,400,000
Series 2005C	11,160,000	0	11,160,000	11,160,000
Series 2005D	4,505,000	0	4,505,000	4,505,000
Series 2006B-1	12,400,000	0	12,400,000	12,400,000
Series 2006B-2	2,890,000	0	2,890,000	2,890,000
Series 2006A (Ref)	26,485,000	0	26,485,000	26,485,000
Series 2006C[1]	20,660,000	0	20,660,000	20,660,000
TOTAL BOND BANK	$583,870,000	$452,600,000	$35,645,000	$488,245,000
ECONOMIC DEVELOPMENT				
Qualitech Steel[2]	$33,100,000	$23,600,000	($1,500,000)	$22,100,000
Steel Dynamics	21,400,000	0	0	0
Heartland Steel[2]	13,800,000	10,300,000	(600,000)	9,700,000
TOTAL ECONOMIC DEVELOPMENT	$68,300,000	$33,900,000	($2,100,000)	$31,800,000
INDIANA FINANCE AUTHORITY				
Stadium Project Series 2005 A	$400,000,000	$0	$400,000,000	$400,000,000
TOTAL STADIUM PROJECT	$400,000,000	$0	$400,000,000	$400,000,000
TOTAL ALL BONDS	$1,704,755,000	$691,050,000	$228,995,000	$920,045,000

(1) Qualified obligation revenues are expected to be sufficient to pay debt service. However, a portion of qualified obligation revenues are payable solely from General Assembly appropriations to the qualified entity.

(2) Qualitech Steel Bonds and Heartland Steel Bonds were fully redeemed on August 1, 2006.

Source: Indiana Finance Authority (as of June 30, 2006)

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenue and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Entity	Purpose of Debt Issuance
Board for Depositories	Provide guarantees for industrial development or credit enhancement for Indiana enterprises
Indiana Health and Educational Facility Financing Authority [(1)]	Provide funds for health facilities and private institutions of higher education
Indiana Housing and Community Development Authority [(2)]	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Port Commission	Provide funds for ports and other projects
Indiana Secondary Market for Education Loans, Inc. [(3)]	Provide funds for secondary market for higher education loans
Indiana State Fair Commission	Provide funds for State fairgrounds

(1) Successor entity to Indiana Health Facility Financing Authority and Indiana Educational Facilities Authority.

(2) Formerly, Indiana Housing Finance Authority. Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds, but has not issued and does not currently expect to issue any such bonds.

(3) A not-for-profit corporation authorized by the General Assembly.

STATE RETIREMENT SYSTEMS

There are three major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Each year, the boards administering the retirement systems make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. PERF has been administered by a five member Board of Trustees appointed by the Governor. On July 1, 2005, the Board of Trustees was expanded to include the State Budget Director. PERF is the State's largest pension fund and has management responsibility for pension assets of State employees, local government units, judges, legislators, prosecutors, municipal police and fire units and State conservation, gaming agent and excise officials. On July 1, 2006, the State portion of PERF, the 1977 Police Officers' and Firefighters' Pension and Disability Fund ("1977 Fund"), the Judges' Retirement System, the Legislators' Retirement System, the State Excise Police, Gaming Agent and Conservation Enforcement Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund had 68,943 active and retired members and total assets of $4.7 billion.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF. The PERF benefit consists of (1) a pension formula benefit based upon years of service and final average salary and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. For State employees, the State pays the employee contributions to PERF.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. The table below highlights the funded status and contribution history for the State portion of PERF for the last five valuation dates.

Table 9
Public Employees' Retirement Fund
(State-Related Portion Only)

	July 1, 2002[1]	July 1, 2003[2]	July 1, 2004[3]	July 1,2005[4]	July 1, 2006[5]
Funded Status					
Actuarial Value of Assets	$2,061,789,940	$2,078,952,506	$2,138,655,367	$2,145,805,051	$2,168,410
Actuarial Accrued Liability (AAL)	2,010,177,846	1,860,101,326	2,019,492,456	2,189,336,721	2,210,377
Unfunded/(Overfunded) AAL	(51,612,904)	(218,851,183)	(98,581,259)	43,531,670	41,967
Funded Ratio	102.6%	111.8%	105.9%	98.0%	98.1%
Contribution History					
Annual Required Contribution	$72,332,921	$79,641,040	$54,579,389	$69,647,405	96,523
Actual Employer Contribution	77,420,077	80,795,703	90,708,898	62,759,547	51,935,237
Contribution Rate[6]	5.6%	3.8%	4.5%	5.5%	6.3%

[1] A four year phase-in was begun to adapt the actuarial valuation to a new census database system. Also, the unfunded actuarial accrued liability was re-amortized over a fresh 30-year period to utilize currently the cost savings of future favorable amortization amounts.
[2] Second year of four year phase-in of new census database system. Also, the 2% cost of living adjustment actuarial assumption was changed from a lifetime assumption to a 5-year assumption only.

(3) Third year of four year phase-in of new census database system. Also, the 2% cost of living adjustment assumption for 5-years was changed to 0.5% lifetime cost of living adjustment assumption. The intention is to phase-in to a recommended 1.5% lifetime cost of living adjustment assumption in 3 years.

(4) Final year of four year phase-in of new census database system. Also, the 0.5% lifetime cost of living adjustment assumption was changed to a 1.0% lifetime cost of living adjustment assumption as part of the 3-year plan to raise the assumption to 1.5%.

(5)The 1.0% lifetime cost of living adjustment assumption was changed to a 1.5% lifetime cost of living adjustment assumption as the final step in phasing in this assumption. Also, the actuarial assumptions were revised based on the recommendations of an actuarial experience study prepared for the period 2000-2005.

(6) Contribution rate is set using the most recently completed actuarial valuation to go into effect the next fiscal year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2006.

Other PERF Plans

The State appropriates moneys to several other retirement plans that are administered by the PERF Board of Trustees. These include the 1977 Fund, the Judges' Retirement System, the Legislators' Retirement System, the State Excise Police, Gaming Agent and Conservation Enforcement Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund. Table 10 highlights the actuarial valuation findings for these plans as of July 1, 2006.

Table 10
Other State Plans Pension Funds
Summary of Results of Actuarial Valuation
(as of July 1, 2006)

	Judges' Retirement System	Legislators' Defined Benefit Plan	Excise Police, Gaming Agent & Conservation Officers' Retirement Plan	Prosecuting Attorneys' Retirement Fund	1977 Police and Firefighter Fund[2]
Funded Status					
Actuarial Value of Assets	$178,276,100	$4,721,200	$48,495,500	$20,053,200	$2,347,985,700
Actuarial Accrued Liability	272,744,600	5,232,100	64,764,800	29,085,800	2,415,054,400
Unfunded/(Overfunded) AAL	94,468,500	510,900	16,269,300	9,032,700	67,068,700
Funded Ratio	65.4%	90.2%	74.9%	68.9%	97.2%
Contribution History[1]					
Annual Required Contribution	$15,405,000	$120,000	$3,128,000	$1,036,000	$106,945,000
Actual Employer Contribution	13,537,111	100,000	2,457,999	170,000	107,034,449

(1) Contribution History is for Plan Year 2006
(2) As of January 1, 2006

Source: Actuarial Valuation Reports, July 1, 2006

The 1977 Fund provides pension and disability benefits for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

In addition, the PERF Board of Trustees administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenue provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2006, $125 million was expended from the pension relief fund, and on June 30, 2006, the total net assets of the pension relief fund were $297.2 million.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") administers a multiple-employer retirement fund established to provide pension benefits for teachers and their supervisors in the State's public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. TRF is administered by a five member Board of Trustees appointed by the Governor ("TRF Board"). On July 1, 2005, the TRF Board was expanded to include the State Budget Director. On June 30, 2006, TRF had 151,414 total members with assets totaling $7,791,423,832.

The TRF benefit consists of (1) a pension formula benefit based upon years of service and final average salary and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Each employer is authorized to elect to pay the employee contribution.

For employees hired prior to July 1, 1995, moneys to pay retirement benefits are provided from State appropriations on a "pay as you go" basis. As a result, there is a substantial unfunded accrued liability in the TRF (the "Closed Plan").

To address TRF's unfunded liability, the State and the TRF Board took the following actions:

(a) The State capped its pension benefit obligation by (i) shifting the obligation for all teachers hired after July 1, 1995, to local school districts and (ii) implementing a level percent of payroll current funding approach (the "New Plan"). The TRF Board sets the contribution rate for the New Plan based on an actuarial valuation of the New Plan.

(b) The New Plan was intended to be responsible not only for newly hired teachers into the schools, but also for the cost of teachers who began service before 1995 but subsequently transferred to other school corporations after 1995. The liability for these transferred teachers, which shifted from the Closed Plan to the New Plan, began to cause an unfunded liability in the New Plan. The General Assembly in 2005 addressed this growing unfunded liability in the New Plan by stopping the transfer of liabilities—therefore transferred teachers remain part of the Closed Plan. In addition, the actuarial assumptions used for calculating the contributions rate into the New Plan now include an assumption for a cost of living adjustment, thereby making the contribution rate for which local schools are liable more realistic. The TRF Board has set the current contribution rate for the New Plan at 7.0%.

In addition, the State established the Pension Stabilization Fund to partially pre-fund liabilities in the Closed Plan. The Pension Stabilization Fund was funded from General Fund, Hoosier Lottery and gaming revenue, as well as investment income. As of June 30, 2006, the Pension Stabilization Fund balance was $1.537 billion.

Table 11
State Teachers' Retirement Fund
Summary of Results of Actuarial Valuation
(as of June 30)

	2001	2002	2003	2004	2005	2006
Funded Status of Closed Plan						
Actuarial Value of Assets	$ 5,363,497,813	$ 5,555,352,257	$ 5,728,553,155	$ 5,765,667,711	$5,796,723,667	$5,477,221,211
Actuarial Accrued Liability	12,695,787,691	13,497,778,031	13,354,866,440	13,548,525,320	14,254,146,576	15,002,470,604
Unfunded/(Overfunded) AAL	7,332,289,878	7,942,425,774	7,626,313,285	7,782,857,609	8,457,422,909	9,525,249,393
Funded Ratio	42.2%	41.2%	42.9%	42.6%	40.7%	36.5%
Funded Status of New Plan[(1)]						
Actuarial Value of Assets	$ 447,261,751	$ 621,222,272	$ 825,811,772	$ 1,038,726,916	$1,268,575,809	$2,209,467,754
Actuarial Accrued Liability	838,038,282	1,166,883,205	1,392,472,616	1,649,400,668	2,010,746,868	2,363,101,528
Unfunded AAL	380,776,531	545,660,933	566,660,844	610,673,752	742,171,059	153,633,774
Funded Ratio	54.0%	53.2%	59.3%	63.0%	63.1%	93.5%

(1) Total Unfunded Accrued Liability of the New Plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Closed Plan.

Source: Indiana State Teachers' Retirement Fund, The Report of the Annual Actuarial Valuation, June 30, 2006.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount. The State Police Pension Fund is funded on an actuarial basis. The Treasurer of State is custodian for the trust. Certain financial information about the State Police Pension Trust is also included in the 2005 Financial Report. *See* "FISCAL POLICIES—2005 Financial Report."

ECONOMIC AND DEMOGRAPHIC INFORMATION

Summary

Indiana's economy is growing in diversity, even as it strengthens its manufacturing roots. With an estimated 2005 Gross State Product of approximately $238.6 billion (current dollars), Indiana's economy ranks sixteenth largest in the country in terms of the value of goods and services produced. From 1996 to 2006, Indiana witnessed a significant shift in the distribution of employment between sectors. Employment in the Professional and Business Services sector increased by 29%, followed by a 22% gain in Education and Health Services and a 13% increase in Leisure & Hospitality Services. The Manufacturing sector is 19.0% of total employment in Indiana, a decrease from 22.8% in 1996; Manufacturing has been surpassed by Trade, Transportation and Utilities as the largest single sector of employment in Indiana.

Indiana is rich in assets with a low cost of living, a business-friendly regulatory environment and an efficient transportation system. Well-located for goods production and distribution, Indiana is within a day's drive of nearly two-thirds of the United States' population. With 10,023 miles of State highways and 1,172 miles of interstate highways, Indiana has more interstate highways passing through it than any other state. The Governor's 2006 Major Moves transportation initiative, calling for $10.6 billion invested over 10 years, will fund both maintenance and new construction for Indiana's roadways. Coupled with the elimination of the state's inventory tax and the adoption of Daylight Savings Time in 2006, Indiana becomes even more attractive as a site for production, warehousing and distribution and transportation activities, such as the Indianapolis FedEx hub.

The cost of living index for Indiana's major cities has been consistently below the national average. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana due to the ready availability of ample coal reserves. According to the U.S. Energy Information Administration, average electric utility rates during April 2006 were 9.2% lower than the national average for all industrial consumers while residential energy bills were 8.4% lower than the national average.

The Indiana Economic Development Corporation (IEDC) is the State of Indiana's lead economic development agency. The IEDC was officially established in February 2005 to support economic development efforts in the State of Indiana, replacing the former Department of Commerce. The IEDC is organized as a public private partnership, governed by a 12-member board of directors chaired by Governor Mitchell E. Daniels, Jr. The IEDC completed 189 competitive economic development projects in 2006, resulting in commitments to create over 22,000 new jobs and invest over $8.4 billion in private capital. Industries represented include advanced manufacturing, life sciences, insurance and financial services, agriculture/biofuels, and information technology. IEDC's results for 2006 surpassed a highly successful year in 2005 in which 142 competitive projects resulted in commitments to create over 15,000 new jobs and invest over $2.75 billion in private capital.

Population

Indiana is the 15th most populous state in the United States. The capital and largest city is Indianapolis. From 2000 to 2006, the Indianapolis MSA has grown by 9.2%. While Indiana's educational attainment rate for bachelors' degrees has lagged the nation and several neighboring states, estimates from Census 2000 and the American Community Survey indicates that between 2000 and 2005, the number of individuals with "some college", associates' degrees and bachelors' degrees were increasing at a substantially higher rate than the population 25 years and older**.** In addition, of those Hoosiers who have completed a bachelors' degree or above**,** 36.4% have attained masters', doctoral or professional degrees, closely matching the national average of 36.7%.

Table 12
Educational Attainment, Indiana Population 25 Years & Over

Year	Some college, no degree	Assoc Degree	BA/BS or Above	Population 25 Yrs & Over
2000	727,387	210,265	749,872	3,893,278
2001	739,281	244,714	789,776	3,882,504
2002	725,926	219,712	794,098	3,845,706
2003	747,449	253,224	811,771	3,863,200
2004	768,437	250,762	838,435	3,889,833
2005	789,952	276,886	840,876	3,956,723
2000-2005	8.60%	31.68%	12.14%	1.63%

Source: Census 2000, 2001-2005, American Community Survey (updated table, added advanced degree counts)

Indiana's excellent state colleges and universities attract students from around the county (the state ranks 4th nationally in terms of net in-migration of college freshman, according to the National Center for Education Studies)[FN1]. These schools also serve as the focus of research and development efforts, assist in the formation of small business "incubators" and award advanced degrees in fields as varied as engineering, economics and pharmacy. In 2004, based on a National Science Foundation survey, among the nation's public universities, Indiana ranked 5th in the nation in Academic Research & Development from Institutional funding (including grants and endowments) and 10th in terms of both Industry (for-profit entities) funding and funding from "All Other" sources. The National Science Foundation (NSF) publishes an annual Science and Engineering State Profiles report. In the 2003-2004 report Indiana ranks in the top 20 for numbers of Doctoral Scientists, Science and Engineering (S&E) doctorates awarded, S&E and health post doctorates and graduate students in doctorate granting institutions.[FN2] Purdue University, Indiana University and the University of Notre Dame have all been included in the Financial Times rankings of the world's top business schools.[FN3]

Table 13
Population, including Selected Indiana MSAs

	2000*	2006	Percentage Change 2000-2006
Indiana	6,080,485	6,313,526	3.8%
Indianapolis MSA	1,525,104	1,666,032	9.2%
Fort Wayne MSA	390,156	408,071	4.6%
Evansville-Henderson MSA	342,815	350,356	2.2%
Gary PMSA	675,971	700,896	3.7%
South Bend MSA	316,663	318,007	0.4%
United States	281,421,906	299,398,484	6.4%

*These Indiana Metropolitan Statistical Areas were reconfigured in 2005. The above population estimates are based on the areas as defined by the Office of Management and Budget as of December 2005. Consistent aggregate historical data is not yet readily available. Source: U.S. Census Bureau[FN4]

Section Footnotes:[1]http://nces.ed.gov/programs/digest/d05/tables/dt05_204.asp
[2]http://www.nsf.gov/statistics/nsf06314/
[3]FinancialTimes Report: Business Education http://search.ft.com/ftArticle?queryTest=Purdue+University&aje=true&id=070129000926
[4]http://www.census.gov/population/www/estimates/Estimates%20pages_final.html

Employment

During this past decade, employment in Indiana has shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Although manufacturing is still the second largest sector of employment at 19.0% of total employment, it was the slowest growing sector from 1996 to 2006 and has undergone significant diversification and acquired an international presence in recent years. The latter is especially key for the automotive manufacturing and auto parts industries where the contributions of Toyota, Subaru and the Honda plant announced in 2006 should serve to buffer that sector from some of the current vicissitudes of the domestic auto industry. Within the Manufacturing sector, some well-paying industry components experienced significant growth over the last 5 years, either in contradiction to the national trend or far surpassing the U.S. rate of growth.

Table 14
Indiana High-Growth Manufacturing Sub-sectors

NAICS	Sector Description	2000-2005 Empl Change	Indiana % Change	Indiana 2005 Annual Average Wage	U.S. % Change
3254	Pharmaceutical & Medicine Manufacturing	2,729	16%	$89,154	5%
3361	Motor Vehicle Manufacturing	2,939	30%	$71,624	-14%
3362	Motor Vehicle Body & Trailer Manufacturing	3,027	9%	$46,018	-7%
3391	Medical Equipment & Supplies Manufacturing	3,460	25%	$58,618	-1%

Source: Bureau of Labor Statistics, Quarterly Census of Employment & Wages

The fastest growing sectors overall during the last decade were Professional and Business Services, which grew by 30.6% from 1996 to 2006, followed by Education and Health Services (21.9% growth).

Table 15
Indiana Non-Farm Employment by Sector; December 1996 to December 2006
(Not Seasonally Adjusted)

NAICS Super Sectors	1996	Percentage of Total	2006	Percentage of Total	Growth 1996-2006
Total Non Farm	2,867,900	100%	3,006,400	100%	4.8%
Professional & Business Services	215,900	8%	281,900	9%	30.6%
Educational & Health Services	318,900	11%	392,500	13%	23.1%
Leisure and Hospitality	246,100	9%	278,200	9%	13.0%
Government	401,000	14%	442,900	15%	10.4%
Construction	137,700	5%	149,400	5%	8.5%
Other Services	105,900	4%	111,100	4%	4.9%
Financial Activities	141,000	5%	140,600	5%	-0.3%
Trade, Transportation & Utilities	602,100	21%	601,600	20%	-0.1%
Natural Resources & Mining	7,200	0%	6,900	0%	-4.2%
Information	44,800	2%	40,300	1%	-10.0%
Manufacturing	647,700	23%	561,000	19%	-13.4%
Services Providing	2,075,300	72%	2,289,100	76%	10.3%
Goods Producing	792,600	28%	717,300	24%	-9.5%

Source: US Bureau of Labor Statistics, Current Employment Survey

Table 16
Unemployment Rate
(Annual Averages of Monthly Data)

Year	Indiana	U.S.	Indiana as Percentage of U.S.
1996	3.9	5.4	75.9
1997	3.3	4.9	71.4
1998	2.9	4.5	68.9
1999	2.9	4.2	71.4
2000	2.9	4.0	80.0
2001	4.2	4.7	93.6
2002	5.2	5.8	87.9
2003	5.3	6.0	85.0
2004	5.3	5.5	96.4
2005	5.4	5.1	105.9
2006	5.0	4.6	108.6

Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics

Income

In 2006, Indiana's per capita personal income reached $32,526, increasing 4.3% from 2005. During the past ten years, Indiana's personal income grew at an average annual rate of 3.8%. Indiana's personal income has grown more rapidly than the nation's in the early years of a recovery and more slowly during the later stages.

Table 17
Growth in Per Capita Personal Income
(Current Dollars)

Year	Indiana	U.S.	Indiana	U.S.
1996	22,368	24,175	4.5	4.8
1997	23,306	25,334	4.2	4.8
1998	24,894	26,883	6.8	6.1
1999	25,615	27,939	2.9	3.9
2000	27,132	29,845	5.9	6.8
2001	27,406	30,574	1.0	2.4
2002	28,023	30,810	2.3	0.8
2003	28,884	31,463	3.1	2.1
2004	30,158	33,090	4.4	5.2
2005	31,173	34,471	3.4	4.2
2006(p)	32,526	36,276	4.3	5.2
Average Annual Growth Rate (1996-2006):			3.9%	4.2%
Total Growth Rate (1996-2006):			42.8%	46.3%

Source: US Department of Commerce, Bureau of Economic Analysis, March 2007

Gross State Product

With an estimated 2005 Gross State Product of approximately $238.6 billion, Indiana's economy ranks sixteenth largest in the country in terms of the value of goods and services produced. Since 2002, Indiana's Gross State Product has grown at average annual rate of 5.2% (current dollars).

Table 18
Indiana Gross State Product by Sector; 1997 to 2005
(Millions of Current Dollars)

NAICS Industry Sectors	1997	Percentage of Total	2005	Percentage of Total	Percentage Growth 1997-2005
Arts, entertainment, and recreation	$ 1,616	0.96	$ 3,215	1.35%	98.95%
Educational services	995	0.59	1,773	0.74	78.19
Administrative and waste services	3,634	2.16	6,192	2.60	70.39
Health care and social assistance	10,454	6.22	17,422	7.30	66.65
Professional and technical services	5,694	3.39	9,110	3.82	59.99
Transportation and warehousing	5,685	3.38	8,397	3.52	47.70
Finance and insurance	9,615	5.72	13,964	5.85	45.23
Other services, except government	3,966	2.36	5,658	2.37	42.66
Government	16,356	9.73	23,274	9.76	42.30
Accommodation and food services	3,691	2.20	5,247	2.20	42.16
Real estate, rental, and leasing	15,952	9.49	22,627	9.48	41.84
Mining	651	0.39	910	0.38	39.78
Manufacturing	48,370	28.77	67,208	28.17	38.95
Wholesale trade	9,303	5.53	12,846	5.38	38.08
Information	3,967	2.36	5,412	2.27	36.43
Construction	7,880	4.69	10,549	4.42	33.87
Retail trade	11,507	6.84	15,262	6.40	32.63
Utilities	4,240	2.52	5,214	2.19	22.97
Management of companies and enterprises	2,295	1.37	2,602	1.09	13.38
Agriculture, forestry, fishing, and hunting	2,242	1.33	1,686	0.71	-24.80
Total Gross State Product	$168,115	100.00%	$238,568	100.00%	41.91%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Exports

Since 2002, Indiana businesses have significantly increased exported output. The value of exports in calendar year 2003 jumped to $16,402 million, a 9.91% increase over 2002, in 2004 the total value increased to $19,109 million, a 16.50% growth rate, and in 2005 increased to $21,476 million, a 12.39% increase. Since 1997, Indiana's exports have grown at an average annual rate of 9.82% as compared to 3.94% for the United States as a whole.

Table 19
Exports
(Millions)

Year	Exports		Annual Percentage Change		Indiana as a Percentage of U.S. Exports
	Indiana	U.S.	Indiana	U.S.	
1997	$12,029	$687,598	- %	- %	1.75%
1998	12,318	680,474	2.40%	-1.04%	1.81
1999	12,910	692,821	4.81%	1.81%	1.86
2000	15,386	780,419	19.18%	12.64%	1.97
2001	14,365	731,026	-6.64%	-6.33%	1.97
2002	14,923	693,257	3.88%	-5.17%	2.15
2003	16,402	723,743	9.91%	4.40%	2.27
2004	19,109	817,936	16.50%	13.01%	2.34
2005	21,476	904,380	12.39%	10.57%	2.37
Average Annual Growth Rate (1997-2005):			9.82%	3.94%	
Total Growth (1997-2005):			78.54%	31.53%	

Source: U.S. Census Bureau, Foreign Trade Division (September 2006)

Table 20
Indiana's Leading Export Industries and Destinations
(Millions)

Top Export Industries		Export Destinations	
Industry	2005 Exports	Country	2005 Exports
Transportation Equipment Mfg	$ 6,842.5	Canada	$ 9,550
Chemical Manufacturing	4,278.8	Mexico	2,618
Machinery Manufacturing	3,015.7	United Kingdom	1,516
Computer & Electronic Prds	1,737.3	France	1,467
Miscellaneous Manufacturing	1,051.7	Japan	769
Primary Metal Manufacturing	995.4	Germany	691
Electr Eqp, Appl. & Component	724.8	Netherlands	427
Rubber & Plastics Products	671.9	China	418
Fabricated Metal Products	628.5	Australia	334
Food Manufacturing	242.3	South Korea	303
Other	1,286.9	Other	3,383
Total	$21,475.9		$21,476

Sources: Office of Trade and Economic Analysis/U.S. Census Bureau, Foreign Trade Division

LITIGATION

The following litigation liability survey is a summary of certain significant litigation and claims currently pending against the State involving amounts exceeding $10.0 million individually or in the aggregate. This summary is not exhaustive either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any.

Contract Litigation

In June 2000, in *Linet Alexander Chanell, et al v. Marion County Sheriff and Commissioner of Indiana Department of Administration*, plaintiffs filed a class action lawsuit, that alleged the Sheriff and the Department of Administration entered into illegal telecommunication contracts that allowed the Sheriff and the Department of Administration to collect commissions from the collect call telephone service which is provided to inmates, and that the Sheriff and the Department of Administration caused the telecommunication providers to charge unreasonable telephone rates. Plaintiffs' allegations against the Department of Administration specifically claim that the Department of Administration breached its common law duty of reasonableness, levied unauthorized taxes, was unjustly enriched and violated Indiana's antitrust statute. The Department of Administration's motion for summary judgment was filed in March 2006. The plantiffs filed a response to the motion for summary judgment, and also a cross motion for summary judgment, which raised new factual issues. The Department of Administration and the Sheriff are in the process of taking depositions in order to prepare a reply to the plaintiffs' response and to respond to the cross motion for summary judgment. Deadlines in the summary judgment process, as well as the summary judgment hearing date, have all been extended due to these developments. Summary judgment briefs are complete. Defendants filed a motion to strike concerning some of the statements of fact in plantiffs' summary judgment brief. Plaintiffs responded and defendants' filed a reply brief and are awaiting the court's ruling. If plaintiffs are successful, the damages could be in excess of $12.0 million.

In July 2002, in *Raybestos vs. Indiana Department of Environmental Management,* plaintiff filed a breach of contract action against the State alleging that the Indiana Department of Environmental Management failed to abide by the terms of an agreed order relating to the clean-up of Shelly Ditch in Crawfordsville, Indiana. The plaintiff is seeking $18 million in damages. On a motion for summary judgment, plaintiff prevailed on the breach of contract issue. Closing arguments were heard in January 2007 and the judge issued a judgment against the defendant. The defendant filed a notice of appeal and the appellant brief is due in April 2007.

Employment Litigation

In July 1993, in *Paula Brattain, et al vs. Richmond State Hospital.,* plaintiffs filed a lawsuit in a state trial court alleging that the State has failed to pay certain similarly classed State employees at an equal rate of pay from September 19, 1973, to September 19, 1993. The court certified plaintiffs' class, and class notification is complete. No trial date has been set. Plaintiffs seek damages in an unspecified amount, as well as attorneys' fees and costs. If plaintiffs are ultimately successful, the damages will be in excess of $10.0 million.

Civil Rights Litigation

In 1968, in *United States of America, et al v. Board of School Commissioners, et al,* a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The federal court entered its final judgment in 1981 holding the State responsible for most of the costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court. State expenditures will be gradually reduced as the plan is phased out.

Property Litigation

In December 2000, in *NJK Farms and George W. Pendygraft vs. Indiana Department of Environmental Management,* property owners filed an action against the State, including the Office of Environmental Adjudication, claiming that denial of a permit for certain land use was an unconstitutional taking of property and a denial of due process under the United States Constitution, as well as a violation of the Indiana Constitution. Plaintiffs are seeking in excess of $30.0 million in damages plus costs and attorney fees. Federal claims against the Office of Environmental Adjudication were dismissed by the federal court. Remaining federal claims are expected to be taken up after the state court acts. Pendygraft is attempting to negotiate a settlement that would grant him a landfill permit. The State is monitoring the permit process as a component of the settlement. If successful, all claims will be dropped.

In May 2000, *Greenfield Mills v. Indiana Department of National Resources* was filed against the State by property owners along the Fawn River in Northeastern Indiana, alleging violations of the Clean Water Act, unconstitutional takings of property and federal civil rights violations. Plaintiffs are seeking in excess of $38.0 million in damages, costs and attorney fees. The federal trial court granted summary judgment in favor of the State, but the property owners appealed. A federal appeals court remanded the case to the trial court on one issue under the federal Clean Water Act. The parties have completed discovery on that issue and prepared briefs in support of new motions for summary judgment for consideration of the trial court. An order denying the State's motion for summary judgment and entering summary judgment in favor of the plaintiffs (on liability) was issued. The parties have to file a joint status report, following a teleconference with the court, as to how this case will proceed. Currently an independent surveyor is assessing the Fawn River. This assessment may take a year to conduct. In the interim, plaintiffs have filed a motion for attorney's fees. The judge issued an order denying the motion for attorney's fees.

In March 2004, in *Corbin Smyth vs. Steve Carter and Tim Berry*, an owner of unclaimed property filed a class action in state court alleging that Indiana's unclaimed property statute is unconstitutional under the federal and Indiana constitutions and that interest, dividends and the like should be paid to owners of unclaimed property. Fiscal impact is potentially more than $10.0 million. State filed motion to dismiss. Motion to dismiss was granted. Plaintiff filed notice of appeal and appellate brief. Defendant filed appellate brief. Oral argument was held in January 2006. The Court of Appeals affirmed, and the case is now on petition to transfer.

Juvenile Incarceration Expense Litigation

In July 2005, in *Marion County ex rel. Bart Peterson v. Connie Nass,* Marion County challenges: (1) constitutionality of statute that requires county to pay state for expenses of juvenile incarceration (Marion County is approximately $62 million in arrears), and (2) the misapplication of Indiana Code Sections 11-10-2-3 and 4-24-7-2, in that Marion County has been assessed by the State for costs incurred by Department of Correction institutions other than the Boys School and the Girls School. On July 27, 2005, plaintiff filed a motion for preliminary injunction. Court issued an order setting motion for hearing for August 16, 2005. On July 27, 2005, St. Joseph County moved to intervene as another plaintiff. On July 28, 2005, defendants filed appearances of counsel, notice of automatic enlargement, up to and including September 3, 2005, in which to respond to the complaint, and motion for change of venue from the county. The cause was venued to Shelby Superior Court. All State defendants filed their answer and motion for summary judgment. The court granted Joseph and Clark Counties' motion to intervene as plaintiffs. A hearing was held in September 2005 on motions that had been filed. Discovery is complete and a final hearing on cross motions for summary judgment was held. The parties are currently awaiting final order from the court.

APPENDIX B

THE SERIES 2007 A QUALIFIED ENTITY

APPENDIX B

SERIES 2007 A QUALIFIED ENTITY

Series	Qualified Entity	Par Amount	Source of Payment	Final Maturity	Percentage of Total Debt
2007 A	Hendricks Regional Health	$44,915,000	Revenue	4/1/2030	100.00%

HENDRICKS REGIONAL HEALTH

Description of the Project

Proceeds of the Board of Trustees of Hendricks County Hospital Series 2007 Note (the "2007 Note") will be used to purchase and place into an irrevocable escrow account, certain cash and securities to provide for the advance refunding of a portion of the Board of Trustees of Hendricks County Hospital Series 2002 Note (the "2002 Note") and to pay costs of issuance of the proposed 2007 Note.

Description of the Series 2007 A Qualified Entity:

Total Principal	-	$44,915,000
Security and Lien	-	Net Revenues of Hendricks Regional Health (the "Hospital") ("Net Revenues" is defined as total operating revenues of the Hospital plus investment income, less total operating expenses, net of depreciation and amortization expenses).
Repayment Schedule	-	Principal payments commencing April 1, 2013 and terminating April 1, 2030.
Debt Service Reserve	-	Maximum annual debt service to be funded by a debt service reserve surety bond.
Pro Forma Coverage	-	At least 5 times – Net revenues divided by the estimated combined maximum annual debt service. The Indiana Bond Bank requires a pro forma coverage at the time of issuance of the Qualified Entity to be equal to or greater than 1.25 times.

Description of the Hospital

The Board of Trustees of Hendricks County Hospital, a body corporate and politic of the State of Indiana (the "Board" or the "Qualified Entity"), operates Hendricks Regional Health (the "Hospital") located in Danville, Indiana, which is the county seat of Hendricks County (the "County") located approximately twelve miles west of Indianapolis. The Hospital is a general acute care short term Hospital having a licensed capacity of 157 beds and currently operating 137 beds. The Hospital was originally constructed in 1962.

The Hospital has expanded steadily during the last forty-five years. A laboratory and radiology addition was completed in 1965. Then, in 1967, the second expansion added a second floor to the inpatient nursing wing. The third expansion in 1973 resulted in two additional operating rooms, two emergency examination rooms, a physical therapy area and the enlargement of other ancillary service areas.

The fourth expansion completed in the early 1980s resulted in major changes to the Hospital. Approximately 44,000 square feet of new space was added and renovation of 42,000 square feet was performed to position the Hospital for the next decade. Extensive changes occurred to all diagnostic and treatment areas for improved service and traffic flow with emphasis being focused on outpatient care.

In 1988 the Hospital began doing business as Hendricks Community Hospital rather than Hendricks County Hospital. This name change was driven by the fact that the Hospital was attracting a significant amount of patients from outside the County.

In 1991, the Hospital embarked on an expansion and renovation project costing approximately $21,000,000. It entailed a new operating plant facility to house mechanical and electrical equipment in addition to significantly expanding its outpatient service capabilities.

To increase available space for outpatient services on the main level of the Hospital, a third floor was added to the inpatient nursing wing to house a new Family-Centered Maternity Unit featuring labor, delivery, recovery, and postpartum (LDRP) suites.

In 1993, the Hospital constructed the first of three off-campus facilities in Avon. What began as a stand-alone Medical Office Building (MOB) quickly grew into a second adjoining MOB and a Cancer Center. The second MOB included an Immediate Care Center, Laboratory and Radiology services. The Radiology area housed the County's first open MRI. In 2001 an Outpatient Surgery Center was added to the site. Physical Therapy services were added in 2002.

In 1999, Brownsburg was the site of the Hospital's second off-campus development project. It included a MOB which housed Laboratory and Radiology services as well as numerous physician practices.

Plainfield is the latest site for a MOB. Opened in 2002, the Plainfield facility is a three-story structure with over 100,000 square feet of space housing numerous hospital services and primary care and specialty physician practices. Services presently in operation are an Immediate Care Center, Laboratory and Radiology, Physical Therapy, and Occupational Medicine.

The Hospital began construction on the expansion of the north building and renovation of existing space in 2002 at the Danville location. In 2005, the Hospital opened the first floor renovation occupied by the administrative departments. A new medical office building is scheduled to be completed in 2007.

The Hospital currently operates 137 adult beds and 20 nursery bassinets as outlined below:

Type of Service	Beds
Adult Beds:	
Medical Surgical	92
Intensive Care	12
OB/GYN	23
Psychiatry	10
Total Adult Beds	137
Nursery	20
Total Beds	157

Services

Today the Hospital operates as a regional hospital providing a broad array of services such as neurology, cardiology, oncology, and orthopedics, including hip and knee replacement and inpatient physical rehabilitation. The ancillary and support services offered by the Hospital are as follows:

Ambulatory Services
Cardiac Rehabilitation
Cardiac Telemetry
Cardiovascular Studies
Chemotherapy Services
Clinical and Anatomical Laboratory
Computerized Tomography
Coronary Care
Diagnostic Radiology and Special Procedures
Electrocardiology
Emergency Department
Endoscopy
Enterostomal Therapy
Epidemiology/Infection Control
Home Care
Intensive Care
Labor and Delivery Service
Magnetic Resonance Imaging (MRI)
Mammography
Nuclear Medicine
Nurseries
Occupational Therapy
Oncology
Patient Education
Pediatrics
Pharmacy
Physical Therapy
Progressive Care
Psychiatric Center
Radiation Therapy
Recovery Room
Respiratory Care
Social Services
Speech Therapy
Tumor Registry
Surgical Facilities
Ultrasound

Organization

A five member Board of Trustees (the "Board"), appointed by the Board of Commissioners of Hendricks County, governs the Hospital. Administrative functions are carried out by the chief executive officer and staff members.

Other corporations have been created which operate under the control of the Board for the provision of other services. An organization structure and a brief description of the functions of the Board and its affiliates are described below.

The Board of Commissioners of Hendricks County (3 members)	- elected by County voters
The Board of Trustees of Hendricks County Hospital (5 members)	- appointed by Board of Commissioners of Hendricks County
Hendricks Regional Health Foundation, Inc. Board of Trustees (7 members)	- elected by Foundation Board, includes four Hospital Board members

The Hendricks Regional Health Foundation, Inc. (the "Foundation"), is organized as a charitable foundation whose assets are utilized for the benefit of the Hospital. The Foundation owns one and leases another medical office building in the County. Private duty home care is also provided through the Foundation. The Foundation had total assets and net worth of approximately $1,699,091 and $1,609,996, respectively, at December 31, 2006.

Governance

The Board of Commissioners of Hendricks County (the "Commissioners") appoint the five Board members to serve staggered four-year terms. The Commissioners are required to appoint at least two members from both major political parties. The current members of the Board including their professions are as follows:

Board Members	Profession	Term Expires
Terry L. Dillon (Chairman)	Certified Public Accountant	2010
David E. Lawson (Vice Chairman)	Attorney	2008
Kathleen Corbin	School Superintendent	2009
P. Daniel Reed, M.D. (Secretary)	General Surgeon	2009
Mike Edmondson	Farmer	2007

The Board has a conflict of interest policy for its trustees and officers. The bylaws of the Board permit the Board to transact business with an organization in which a trustee or officer has a financial interest, provided that the fact is disclosed to or is known by the Board and that the person having such conflict does not participate in any decision of the Board involving the other

organization. In this way, any individual who might derive personal, financial or other type of benefit from a Board decision is removed from the decision making process.

Executive Management

DENNIS W. DAWES, *President and Chief Executive Officer*

Mr. Dawes has served as President and Chief Executive Officer of the Hospital since October 1974. He started with the Hospital in August 1972. Mr. Dawes also serves as treasurer of the Board. Mr. Dawes received a Bachelor of Arts degree from Taylor University in May 1968 and a Master of Health Care Administration degree from Indiana University School of Medicine in May 1974. Before coming to the Hospital, he worked with Inter-Varsity Christian Fellowship and the Indiana State Department of Health. He is a Fellow in the American College of Healthcare Executives, a past Chairman of the Board of the Indiana Hospital and Health Association, and was a delegate to the American Hospital Association and Region V Board. Mr. Dawes serves on the Board of Directors of the Suburban Health Organization, Health Care Partners, Inc., and the Brownsburg, Avon, and Danville Chambers of Commerce. He also serves on the Board of Directors of Lincoln Federal Savings Bank in Plainfield. He is a member of the Danville Rotary Club and an elder in his church.

JOHN J. KOMENDA, *Chief Financial Officer*

Mr. Komenda has been the Chief Financial officer of the Hospital since November 1983. Prior to that, he had accumulated six years of healthcare experience, five years on the healthcare audit and consulting staff of two regional CPA firms and one year as a cost accountant at the Indiana University Medical Center. Mr. Komenda received a Bachelor of Science degree in Business Administration (1976) and a Masters of Business Administration (1991) from Indiana University. His professional affiliations include the American Institute of Certified Public Accountants, Indiana CPA Society, and the Healthcare Financial Management Association. Mr. Komenda is also active in his church and in the community as a Rotarian and a Board member of Cummins Mental Health Center.

Accreditation and Affiliation

The Hospital received its current three-year accreditation from the Healthcare Facilities Accreditation Program (HFAP) in January 2005. It is licensed to operate by the Indiana State Board of Health. The Hospital is a member of the American Hospital Association, Indiana Health & Hospital Association and Suburban Hospitals, Inc.

Medical Staff

The Medical Staff of the Hospital is divided into three categories: Active, Affiliate and Provisional. Active medical staff members have chosen the Hospital as their primary Hospital. All active staff members maintain offices within the Hospital's primary service area. Active staff members are requested to serve on Hospital operational committees. Approximately 93% of all Hospital admissions are generated by the active medical staff. Affiliate medical staff are: (1) older physicians who were previously on the active medical staff; and (2) physicians with admitting privileges at other hospitals. Affiliate staff are encouraged to annually attend three medical staff meetings if their number of admissions exceeds 25 per year. The affiliate staff accounts for 1% of the Hospital's admissions. Provisional medical staff members have been granted temporary privileges to admit patients until a review and approval process is completed before the granting of full privileges. Their admissions constitute approximately 6% of the Hospital's total admissions. Board Certification has been attained by 91% of the medical staff. The following table presents a profile of the Hospital's medical staff.

Medical Staff Profile
Year Ended December 31, 2006

Specialty	Number of MDs	Average Age	Board Certified Percent	Discharges	% of Total Discharges
Allergy/Immunology	4	53	100	-	0.0%
Anesthesiology	4	46	75	-	0.0%
Cardiology	23	52	96	432	5.9%
Dermatology	3	51	100	-	0.0%
Emergency Medicine	7	43	86	1	0.0%
Family Practice	31	47	100	530	7.3%
Gastroenterology	3	55	100	155	2.1%
Hematology/Oncology	9	46	100	91	1.2%
Immediate Care	10	60	90	-	0.0%
Infectious Disease	4	48	100	276	3.8%
Internal Medicine	21	40	90	2,409	32.9%
Nephrology	17	45	100	1	0.0%
Neurology	5	49	80	104	1.4%
Neurosurgery	1	61	100	-	0.0%
OB/Gynocology	13	48	69	1,187	16.2%
Ophthalmology	4	52	100	-	0.0%
Oral Surgery	5	47	80	1	0.0%
Orthopedics	14	49	93	284	3.9%
Otolaryngology	4	46	75	36	0.5%
Pathology	3	39	67	-	0.0%
Pediatrics	14	53	100	-	0.0%
Pediatric Dentistry	9	40	78	665	9.1%
Physical Medicine/Rehab	1	52	-	-	0.0%
Plastic Surgery	6	42	100	-	0.0%
Podiatry	2	56	100	7	0.1%
Proctology	9	52	100	3	0.0%
Psychiatry	1	56	100	-	0.0%
Psychology	3	49	100	426	5.8%
Pulmonary Medicine	3	55	100	129	1.8%
Radiation Oncology	7	46	86	-	0.0%
Radiology	6	50	100	-	0.0%
Surgery	7	47	100	487	6.7%
Urology	10	42	80	91	1.3%
Totals/Averages	263	48	91	7,315	100.0%

Medical Staff Status
Year Ended December 31, 2006

Status	Number of MDs	Average Age	Board Certified Percent	Discharges	% of Total Discharges
Active	105	46	92	6,831	93.4%
Affiliate	119	51	95	62	0.8%
Provisional	39	41	79	422	5.8%
Totals/Averages	263	48	91	7,315	100.0%

A profile of the top twenty admitters for the calendar year 2006 is presented in the following table:

Number	Specialty	Age	Board Certified	2006 Admissions	Percent of 2006 Admissions
1	Internal Medicine	41	Yes	420	5.7%
2	Internal Medicine	39	Yes	405	5.5%
3	Internal Medicine	48	Yes	318	4.3%
4	Psychiatry	46	Yes	251	3.4%
5	Internal Medicine	33	No	250	3.4%
6	OB/Gyn	44	Yes	229	3.1%
7	OB/Gyn	43	Yes	206	2.8%
8	Internal Medicine	40	Yes	196	2.7%
9	OB/Gyn	47	Yes	189	2.6%
10	OB/Gyn	57	No	180	2.5%
11	Psychiatry	52	Yes	175	2.4%
12	Infectious Disease	46	Yes	167	2.3%
13	Surgery	49	Yes	134	1.8%
14	Surgery	52	Yes	133	1.8%
15	Pediatrics	38	No	127	1.7%
16	Cardiology	60	Yes	127	1.7%
17	Pediatrics	43	Yes	122	1.7%
18	Surgery	51	Yes	119	1.6%
19	Cardiology	42	Yes	118	1.6%
20	Internal Medicine	40	Yes	118	1.6%
Totals/Averages		46		3,984	54.2%

The Hospital's top 20 admitting physicians accounted for 54.2% of the Hospital's admissions from January 1, 2006 to December 31, 2006. The average age of these physicians is 46 years, as compared to 49 years for the active medical staff.

Market Area Analysis

The Hospital's primary service area is defined on the basis of zip code, and patient origin statistics that are tracked across a six-county region. The Hospital's primary service area is comprised of Hendricks County, portions of western Marion County, northern Morgan County and eastern Putnam County, which, accounted for approximately 87% of the Hospital's 2006 discharges.

Patient Origin Data
2006 Discharges

	Percent of Hospital Totals
Primary Service Area:	
Hendricks County	71.0 %
Western Marion County	7.9
Northern Morgan County	3.1
Eastern Putnam County	4.9
Total Primary Service Area	86.9 %
Other	13.1
Total	100.0 %

Competing Medical Facilities

Clarian Healthcare has a hospital located in the Hospital's primary service area, as well as, Methodist and Indiana University Hospitals in downtown Indianapolis. St. Vincent Hospital is a competing hospital which is located in northwestern Marion County. No other hospital achieved more than a 5% market share in Hendricks County. The following table sets forth primary service area inpatient market share data for the Hospital and its significant competitors.

Primary Service Area
Inpatient Market Share

Hospital	Miles from Hospital	Staffed Beds	2006 Market Share
Hendricks Regional Health	n/a	137	22.6%
St. Vincent's Hospital	27.6	740	13.3%
Clarian Healthcare		1,384	
Clarian West	8.2		10.1%
Clarian - Methodist	20.2		15.8%
Clarian - IU	18.9		2.6%
Clarian - Riley	17.5		2.1%
Wishard Health Services	18.9	319	4.8%
Putnam County Hospital	28.6	25	3.6%
Other			25.1%
		2,605	100.0%

Clarian Health completed construction of a full-service 75-bed acute care hospital in Avon, Indiana in 2003. Avon is located in the far eastern section of the County, approximately seven miles from the Hospital, and is considered a bedroom community of Indianapolis. While this is a competing facility, Hospital management believes that a majority of the patients utilizing this facility had previously sought health care services in metropolitan Indianapolis.

A factor that has allowed the Hospital to achieve a high market share is its pricing structure. Its average charge per stay has in recent years been below its major competitors. Management believes that this, along with its location, makes it an attractive provider to alternative healthcare delivery systems such as health maintenance organizations (HMOs) and preferred provider organizations (PPOs). Accordingly, Hospital management anticipates increased patient volumes as the push to decrease healthcare costs drives employers to join HMOs and PPOs.

Service Area Characteristics

The 2000 census shows that the population of the County was 104,093 compared to 75,717 in 1990, an increase of 37.5%. The County is predominantly a residential and agricultural community with its economic position closely tied to the City of Indianapolis. The City of Indianapolis has developed a diverse economic base which has been recognized as a stable and attractive locale for new business enterprise. The eastern half of the County, which is adjacent to Indianapolis, is primarily a residential area, with the majority of residents commuting to employment in the Indianapolis metropolitan area. This sector includes the towns of Plainfield, Brownsburg and Avon. The four County townships which border Indianapolis (Brown, Lincoln, Washington and Guilford) make up 70% of the County's total population. The remainder of the western portion of the County is primarily agricultural.

The ten largest employers in Hendricks County are:

Employer	Business	Employees
Hendricks Regional Health	Medical	1,748
Foxconn	Manufacturing	1,200
Duke Energy Indiana	Utility	900
Brownsburg Community Schools	Education	871
Avon Community Schools	Education	825
Brightpoint	Cable	600
JC Penny Distribution Center	Retail	500
Wal-Mart	Retail	470
Indianapolis Raceway Park	Sport	467
Clarian West Medical Center	Medical	450

Unemployment

Employment as of December 2006:

	Hendricks County	Indianapolis MSA	Indiana
Labor Force	69,153	891,990	3,278,727
Employed	66,927	855,630	3,125,682
Unemployed	2,226	36,360	153,045
Unemployment Rate	3.20%	4.10%	4.70%

Source: U.S. Department of Labor, Bureau of Labor Statistics and www.bls.gov; Indiana Department of Workforce Development, www.in.gov/dwd.

Malpractice and Other Insurance

The Hospital maintains commercial insurance for its medical malpractice and other corporate needs. The insurance portfolio is part of an overall formalized risk management program that has as its primary purpose the protection of corporate assets in order to maintain the viability of the Hospital. Coverage levels are reviewed regularly and adjusted to reflect current conditions.

The Hospital is qualified as a health care provider under the Indiana Medical Malpractice Act (IC 34-18) (the "Medical Malpractice Act"). The law provides for a mandatory State Patient's Compensation Fund (the "Fund") to which a qualified health care provider contributes a surcharge. The amount of the surcharge is established by the Department of Insurance based on an actuarial program. The amount for each hospital must be sufficient to cover but may not exceed the actuarial risk posed to the Fund by the hospital. For any act of malpractice, the Medical Malpractice Act provides for a maximum recovery of $1,250,000. A health care provider is liable for up to $250,000 of the maximum recovery. The excess is paid by the Fund. The effect of this law is to require the Hospital to carry insurance of $250,000 per occurrence and $7,500,000 in the annual aggregate for the patient professional liability risks. Various aspects of the Medical Malpractice Act, including the limitations on recovery, have been upheld on constitutional grounds by the Indiana Supreme Court.

The Hospital has an in-house risk manager who works closely with representatives of its insurance carriers. Outside legal defense counsel is used to handle any litigation associated with claims against the Hospital. In addition to the State Compensation Fund, the Hospital carries $1,000,000 of comprehensive general liability insurance for liability to patients from fire, lightning, windstorm, hail, explosion, riot and civil commotion, smoke, vandalism, malicious theft, and collapse of building. The Hospital also insurers certain of its employed physicians in amounts required by the Medical Malpractice Act. Other contract physicians are required to carry their own malpractice insurance and to qualify as health care providers under the Medical Malpractice Act.

The Hospital maintains other insurance coverages (property and casualty, umbrella liability, etc.) in amounts that are customary for hospitals of a similar size and location.

Litigation

The nature of the Hospital's business generates a certain amount of litigation arising in the ordinary course of business. Hospital management, after discussion with legal counsel, believes that the ultimate result of these legal proceedings and claims will not have a materially adverse effect upon the Hospital's financial condition or results of operations and, in the opinion of the management, there are no proceedings pending or threatened to which the Hospital is or may be a party, or to which its property is or may be subject, and which, if adversely determined against the Hospital, would have a materially adverse effect upon the Hospital's financial condition or results of operations.

Corporate Compliance

In its efforts to improve the operations of the Hospital, the Board adopted a formal Compliance Program during 1998. Similar to the quality improvement projects for clinical issues, the Compliance Program is focused on improving compliance with government rules and regulations (such as tax laws, employment laws, environmental laws, Medicare and Medicaid regulations, etc.). The purpose of the Compliance Program is to prevent, detect, and correct possible violations of federal, state and local laws and regulations as well as possible violations of Hospital and its subsidiaries. A Corporate Compliance Committee was formed in 1998 to assist in the development, implementation and on-going operations of the Compliance Program.

Employees

As of December 31, 2006, the Hospital employed approximately 1,748 full-time, part-time and temporary employees. The Hospital provides a range of benefits that are competitive with other hospitals in the central Indiana market place. None of the Hospital's employees are represented by a labor organization.

Pension Plan

The Hospital has a noncontributory defined benefit pension plan ("Plan") covering substantially all of its employees. Contributions to the Plan are funded as required under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Based on a determination from independent actuaries, net assets available for benefits exceeded the actuarial present value of accumulated plan benefits by $11,780,652 as of January 1, 2006.

Historical Utilization

Various utilization statistics for inpatient and ancillary services of the Hospital are presented in the following table:

Historical Utilization Statistics
Year Ended December 31

Category	2004	2005	2006
Beds in Service - Adult	131	136	137
Adult Patient Days	25,697	27,045	25,756
Adjusted Patient Days	84,766	88,386	84,336
Adult Inpatient Admission	6,348	6,495	6,411
Newborn Days	2,194	2,316	2,274
Deliveries	972	970	912
Adult Average Length of Stay	4.0	4.2	4.1
Occupancy Percentage - Adult	53.7%	54.5%	51.5%
Average Daily Census - Adult	70	74	71
Emergency Room Visits	29,913	29,084	27,913
Surgical Cases - Inpatient	1,456	1,361	1,266
Surgical Cases - Outpatient	6,341	5,659	5,883
Radiology Procedures	88,507	90,764	93,552
Laboratory Procedures	559,326	591,412	602,611

Statement of Revenues and Expenses

The following summary of revenues and expenses of the Hospital for the years ended December 31, 2006, 2005 and 2004 have been derived from the audited financial statements.

Summary of Revenues and Expenses for
the Years Ended December 31, 2006, 2005 and 2004

	2006	2005	2004
Operating Revenue			
Net Patient Service Revenue	$ 133,831,372	$ 122,566,067	$ 116,488,213
Other Operating Revenue	3,016,373	2,839,540	3,134,769
Total Operating Revenue	136,847,745	125,405,607	119,622,982
Operating Expenses			
Salaries and Wages	59,772,677	54,623,128	50,493,011
Employee Benefits	16,919,716	15,425,671	13,661,900
Services	14,632,782	13,995,693	14,173,923
Supplies	15,236,916	13,947,724	13,304,487
Equipment Rental	1,749,836	1,229,826	949,681
Utilities	2,974,266	2,250,351	2,266,926
Depreciation and Amortization	10,312,256	9,746,611	8,854,122
Insurance	1,033,344	599,014	790,935
Other	4,705,110	4,788,198	4,401,244
Total Operating Expenses	127,336,903	116,606,216	108,896,229
Net Operating Income	9,510,842	8,799,391	10,726,753
Other Income			
Investment Income	3,128,856	1,928,617	970,537
Other Expenses			
Interest Expense	2,480,693	2,737,763	2,609,413
Net Income	$ 10,159,005	$ 7,990,245	$ 9,087,877

Management's Discussion of Financial Results

The Hospital's net patient service revenue increased by 5% in 2005 and 9% in 2006. This revenue growth is attributable principally to the rapid growth in outpatient service utilization and to price increases.

Salaries and wages increased 8% in 2005 and 9% in 2006. These increases were due to both increased staffing levels necessitated by volume and pay raises necessary to remain competitive with wage rates in the Indianapolis market. The rise in employee benefit expenses is attributable to a large increase in employee health insurance costs. Annual changes to the health insurance plan to increase deductibles and co-insurance and employee premiums are made to limit future increases in employee health costs. Supplies and other expenses increased by 6% in 2006 reflecting inflation and increased volume of ancillary procedures.

Sources of Patient Revenue

Payments on behalf of patients are made to the Hospital by commercial insurance carriers, by the federal government under the Medicare program, by the state government under the Medicaid program, and by patients from their own personal resources. The percentages of patient revenues by payor for the fiscal years ended December 31, 2004, 2005 and 2006 are as follows:

Sources of Patient Revenue

Source of Payment	Percent of Revenue 2004	2005	2006
Medicare	36 %	38 %	38 %
Medicaid	6	6	5
Blue Cross	20	20	22
HMO's	9	8	8
Other Commercial	24	22	21
Self Pay	5	6	6
Total	100 %	100 %	100 %

As outlined in the above table, the Hospital's payor mix has remained stable over the past three years.

Approximately 90% of nongovernmental revenues are subject to discounts. Because of the Hospital's proximity to Indianapolis, the Hospital feels that it is important to be involved in the key metropolitan area HMOs and PPOs. Rate increases for the last four years were 8% in 2003; 9% in 2004; 12% in 2005; and 6% in 2006. An increase of 8% was implemented January 1, 2007 for the calendar year of 2007.

Historical and Pro-Forma Debt Service Coverage

The following table summarizes the historical and pro-forma debt service coverage for the years ended December 31, 2006, 2005 and 2004.

	Pro Forma		2006	2005	2004
Total Operating Revenue	$ 136,847,745		$ 136,847,745	$ 125,405,607	$ 119,622,982
Add: Investment Income	3,128,856		3,128,856	1,928,617	970,537
Less: Total Operating Expenses of the Hospital Board Net of Depreciation and Amortization Expense)	(117,024,647)		(117,024,647)	(106,859,605)	(100,042,107)
Net Income Available for Debt Service	22,951,954		22,951,954	20,474,619	20,551,412
Combined Annual Debt Service	3,945,837	(1)	4,090,012	4,094,312	4,092,812
Coverage - $	$ 19,006,117		$ 18,861,942	$ 16,380,307	$ 16,458,600
Coverage - %	582%		561%	500%	502%

(1) Represents Maximum Annual Combined Debt Service to occur in 2009.

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APPENDIX C

FORM OF BOND COUNSEL OPINION

Upon delivery of the Bonds, Barnes & Thornburg LLP, bond counsel, will deliver an opinion substantially in the following form:

May 24, 2007

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank Special Program Refunding Bonds, Series 2007 A (Hendricks Regional Health Financing Program)

Ladies and Gentlemen:

We have acted as bond counsel to the Indiana Bond Bank (the "Issuer") in connection with the issuance by the Issuer of its Special Program Refunding Bonds, Series 2007 A (Hendricks Regional Health Financing Program) dated May 24, 2007 (the "Bonds"), in the aggregate principal amount of $44,915,000, pursuant to Indiana Code 5-1.5, as amended, and the Trust Indenture, dated as of May 1, 2007 (the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion.

Regarding questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture, the certified proceedings and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer, the Series 2007 A Qualified Entity (as defined in the Indenture) and others, including, without limitation, certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, and the tax and arbitrage certificate of the Series 2007 A Qualified Entity, dated the date hereof, without undertaking to verify the same by independent investigation. We have relied upon the legal opinion of Coleman Graham & Stevenson, LLC, Indianapolis, Indiana, special counsel to the Issuer, dated the date hereof, as to the matters stated therein. We have relied upon the report of Crowe Chizek and Company LLC, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under the laws of the State of Indiana (the "State") with the corporate power to enter into the Indenture and perform its obligations thereunder and to issue the Bonds.

2. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).

3. The Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

4. Under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on this date (the "Code"), interest on the Bonds is excludable from gross income for federal income tax purposes. The opinion set forth in this paragraph is subject to the condition that each of the Issuer and the Series 2007 A Qualified Entity

comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. Each of the Issuer and the Series 2007 A Qualified Entity has covenanted or represented that it will comply with such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

5. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

6. Interest on the Bonds is exempt from income taxation in the State for all purposes, except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated May 1, 2007, or any other offering material relating to the Bonds.

We express no opinion regarding any tax consequences arising with respect to the Bonds, other than as expressly set forth herein.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) the enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that in our opinion the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

This opinion is given only as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.

Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Program and the Funds and Accounts established by the Indenture. Such books and all other books and papers of the Bond Bank and all Funds and Accounts will, at all reasonable times, be subject to the inspection of the Trustee and the owners of an aggregate of not less than 5% in principal amount of Bonds then outstanding or their representatives duly authorized in writing.

Before the twentieth day of the month following the end of each six-month period, commencing with the period ending June 30, 2007, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding six-month period.

Preservation of Tax Exemption for the Series 2007 A Bonds

In order to assure the continuing excludability of interest on the Series 2007 A Bonds from the gross income of the owners thereof for purposes of federal income taxation, the Bond Bank covenants and agrees to take all actions and not to fail to take any actions necessary in order to preserve and protect such exclusion. In carrying out this covenant, the Bond Bank agrees to comply with a memorandum of compliance with Code Section 148(f) (the "Memorandum of Compliance") concerning the provisions of the Code necessary to preserve and protect such exclusion. This Memorandum of Compliance may be amended only upon receipt by the Trustee of an Opinion of Bond Counsel to the effect that compliance by the Bond Bank with the Memorandum of Compliance, as amended, will not adversely affect the excludability of interest on the Series 2007 A Bonds from gross income for purposes of federal income taxation. See the caption "OPERATION OF FUNDS AND ACCOUNTS--Rebate Fund."

Covenants Concerning the Bonds

In order to provide for the payment of the principal of and interest on Bonds and of Program Expenses, the Bond Bank will promptly and in a sound and economical manner consistent in all respects with the Act, the Indenture and sound banking practices and principles (i) do all acts and things as will be necessary to receive and collect Revenues (including enforcement of the prompt collection of all arrears on the Series 2007 Note), and (ii) diligently

enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect its rights with respect to the Loan Agreement and the Series 2007 Note and to enforce all terms, covenants and conditions of the Loan Agreement and the Series 2007 Note. Whenever necessary to provide for the payment of debt service on the Series 2007 A Bonds, the Bond Bank will also commence appropriate remedies with respect to the Loan Agreement and the Series 2007 Note under which the Qualified Entity is in default.

Bond Bank Covenants with Respect to the Loan Agreement and the Series 2007 Note

With respect to the Loan Agreement and the Series 2007 Note, the Bond Bank covenants as follows:

(a) The Bond Bank will not permit or agree to any material change in the Loan Agreement and the Series 2007 Note unless the Bond Bank first supplies the Trustee with a Cash Flow Certificate giving effect to such change.

(b) The Bond Bank will enforce or authorize or require the enforcement of all remedies available to the Bond Bank under the Loan Agreement and the Series 2007 Note, unless the Bond Bank provides the Trustee with a Cash Flow Certificate giving effect to the Bond Bank's failure to cause the enforcement of such remedies provided, however, that all decisions as to the enforcement of such remedies will be within the Trustee's sole discretion.

(c) The Bond Bank will not sell or dispose of the Series 2007 Note unless the Bond Bank provides the Trustee with a Cash Flow Certificate giving effect to such sale or disposition.

(d) The Bond Bank, to the extent such action would not adversely affect the validity of the Note, it will instruct the Trustee to pursue the remedy set forth in Section 5-1.5-8-5 of the Act, as amended from time to time, and the Trustee covenants and agrees to follow such instructions in accordance with the Act.

Monitoring Investments

The Bond Bank covenants and agrees to review regularly the investments held by the Trustee in the Funds and Accounts under the Indenture for the purpose of assuring that the Revenues derived from such investments are sufficient to pay, together with other anticipated Revenues, the debt service on all Bonds outstanding under the Indenture.

Bond Bank's Certification

The Bond Bank covenants that if a deficiency in the Debt Service Reserve Fund is projected for the annual budget of the Bond Bank, the Chairman of the Board of Directors of the Bond Bank will certify such projected deficiency to the State General Assembly on or before August 1 of the Fiscal Year in which the deficit is projected to occur. Further, regardless of whether any such deficiency was projected to occur in the annual budget and regardless of the time at which such deficiency occurs or is projected to occur, the Bond Bank covenants that it will take all actions required or allowed under the Act, as amended from time to time, to certify to the State General Assembly any deficiency or projected deficiency in the Debt Service Reserve Fund.

Annual Budget

The Bond Bank will adopt and file with the Trustee and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 30 of each year. The annual budget will be open to inspection by any owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 30, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

Investment Covenants

The Bond Bank covenants and agrees that it will not take any action or fail to take any action with respect to the investment of the proceeds of the Series 2007 A Bonds, or with respect to the investment or application of any payments under the Loan Agreement, the Series 2007 Note or any other agreement or instrument entered into in connection therewith or with the issuance of the Series 2007 A Bonds, including but not limited to the obligation, if any, to rebate certain funds to the United States of America, which would result in constituting any Series 2007 A Bonds "arbitrage bonds" within the meaning of Section 148 of the Code. The Bond Bank further agrees that it will not act in a manner which would adversely affect the excludability from gross income tax for federal income tax purposes of the interest on the Series 2007 A Bonds.

Discharge of Indenture

Except as provided in this paragraph, if payment or provision for payment is made to the Trustee of the whole amount of the principal of, and interest due and to become due on all of the Series 2007 A Bonds then outstanding under the Indenture at the times and in the manner stipulated in the Indenture, and there is paid or caused to be paid to the Trustee all sums of moneys due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of the Series 2007 A Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Series 2007 A Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Series 2007 A Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Series 2007 A Bonds.

Any Series 2007 A Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest thereon to its due date, either (i) has been made or has been caused to be made in accordance with its terms or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (A) moneys sufficient to make such payment, (B) Governmental Obligations, which shall not contain provisions permitting the redemption thereof or the option of the issuer thereof, and maturing as to principal and interest in such amounts and, at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (C) a combination of such moneys and Governmental Obligations, and (b) all necessary and proper fees and expenses of the

Trustee pertaining to the Series 2007 A Bonds, and the amount, if any, required to be rebated to the United States of America shall have been paid or deposited with the Trustee.

Defaults and Remedies

Any of the following events constitutes an "Event of Default" under the Indenture:

(a) The Bond Bank defaults in the due and punctual payment of the principal of any Series 2007 A Bond (whether at stated maturity or on any date fixed for redemption) or of any interest on any Series 2007 A Bond;

(b) The Bond Bank defaults in performing or observing any of its other covenants, agreements or conditions contained in the Indenture or in the Series 2007 A Bonds and such default continues for a period of 60 days after the Bond Bank receives written notice of such default by the Trustee;

(c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture or in any instrument furnished in compliance with or in reference to the Indenture is false or misleading in any material respect when made and there has been a failure to remedy such Event of Default within 60 days after the Bond Bank has been given notice of such default by the Trustee;

(d) The Bond Bank fails to make remittances to the Trustee required by the Indenture within the time limits prescribed in the Indenture;

(e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, and is not dismissed within 60 days after such filing;

(f) The Bond Bank files a petition in voluntary bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Bond Bank is generally not paying its debts as such debts become due, or becomes insolvent or bankrupt or makes an assignment for the benefit of creditors, or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;

(h) The Bond Bank fails to restore the Debt Service Reserve Fund to the Debt Service Reserve Requirement within 120 days after the end of the calendar year of the Bond Bank during which a deficiency occurs;

(i) The Bond Bank for any reason is rendered incapable of fulfilling its obligations under the Indenture for any reason; or

(j) A default occurs under the Loan Agreement or an "Event of Default" occurs under the Master Indenture.

No default under subparagraphs (b) or (c) above will constitute an Event of Default until actual notice of the default by registered or certified mail has been given to the Bond Bank by the Trustee or by the owners of not less than 25% in aggregate principal amount, of all Bonds then outstanding and the Bond Bank has had 60 days after receipt of the notice to correct such default or cause such default to be corrected, and shall not correct such default or cause such default to be corrected within such period. If such default is correctable but cannot be corrected within such period, it will not constitute an Event of Default if corrective action is instituted by the Bond Bank within the applicable period and diligently pursued until the default is corrected. Any default cured under this paragraph will not constitute an Event of Default.

Upon the occurrence and continuance of an Event of Default, the Trustee will notify the owners of Bonds (and, with respect to the Series 2007 A Bonds, the Series 2007 A Bond Insurer) of such Event of Default by registered or certified mail and will have the following rights and remedies (but, with respect to the Series 2007 A Bonds, only with the consent of the Series 2007 A Bond Insurer so long as the Financial Guaranty Insurance Policy or the Debt Service Reserve Fund Surety Bond remains in full force and effect):

(a) The Trustee may pursue any available remedy at law or in equity or by statute to enforce the payment of the principal of and interest on outstanding Series 2007 A Bonds, including any and all such actions arising under or by reason of the Loan Agreement or the Series 2007 Note;

(b) The Trustee may by action at law or suit in equity require the Bond Bank to account as if it were the trustee of an express trust for the owners of the Series 2007 A Bonds and may then take such action with respect to the Loan Agreement or the Series 2007 Note as the Trustee deems necessary or appropriate and in the best interest of the owners of Bonds, subject to the terms of the Loan Agreement or the Series 2007 Note;

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the owners of the Series 2007 A Bonds under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate, or any part thereof, under the Indenture and the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer; and

(d) The Trustee by notice in writing to the Bond Bank and the State Attorney General, may declare the principal of and accrued interest on the Series 2007 A Bonds then outstanding to be immediately due and payable.

If an Event of Default has occurred and is continuing, and if requested to do so by the owners of 25% or more in aggregate principal amount of outstanding Series 2007 A Bonds and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights, remedies and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interests of the owners of Bonds.

The owners of a majority in aggregate principal amount of outstanding Series 2007 A Bonds will have the right, at any time during the continuance of an Event of Default, by a written

instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Waivers of Events of Default

Notwithstanding the rights of the owners of the Series 2007 A Bonds discussed above, the Trustee at its discretion may waive any Event of Default and its consequences and may rescind any declaration of maturity of all the Series 2007 A Bonds, and must do so upon the written request of the owners of (i) two-thirds in aggregate principal amount of all the Series 2007 A Bonds then outstanding, in the case of a default in the payment of principal or interest on the Series 2007 A Bonds or (ii) a majority in aggregate principal amount of all Series 2007 A Bonds then outstanding, in the case of any other Event of Default. However, there may not be waived (A) any Event of Default in the payment of the principal of any outstanding Series 2007 A Bond at the specified date of maturity or (B) any Event of Default in the payment when due of the interest on any outstanding Series 2007 A Bond unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Series 2007 A Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default has been discontinued or abandoned or determined adversely, then and in every such case the Bond Bank, the Trustee and the owners of the Series 2007 A Bonds will be restored to their former respective positions and rights under the Indenture. However, no waiver or rescission will extend to any subsequent or other Event of Default or impair any rights consequent thereon.

Rights and Remedies of Owners of Bonds

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or any other remedy under the Indenture, unless (i) an Event of Default has occurred and the owners of not less than 25% in aggregate principal amount of the Series 2007 A Bonds then outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, (ii) such owners of the Series 2007 A Bonds have offered to indemnify, the Trustee, as provided in the Indenture, and (iii) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name, All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal and ratable benefit of the owners of all outstanding Series 2007 A Bonds. However, nothing contained in the Indenture will affect or impair the right of any owner of the Series 2007 A Bonds to enforce the payment of the principal of and interest on any Series 2007 A Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Series 2007 A Bonds to the respective owners of the Series 2007 A Bonds at the time and place, from the source and in the manner expressed in the Series 2007 A Bonds.

Supplemental Indentures

The Bond Bank and the Trustee may, without the consent of, or notice to, any of the owners of the Series 2007 A Bonds, enter into an indenture or indentures supplemental to the Indenture as shall not be inconsistent with the terms and provisions of the Indenture for any one or more of the following purposes:

(a) To cure any ambiguity, formal defect or omission in the Indenture;

(b) To grant to or confer upon the Trustee for the benefit of the owners of the Series 2007 A Bonds any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the owners of the Series 2007 A Bonds or the Trustee or either of them, or to make any change which, in the judgment of the Trustee in accordance with the standards established in the Indenture, does not materially and adversely affect the interest of the owners of the Series 2007 A Bonds and does not otherwise require the consent of all the owners of outstanding Series 2007 A Bonds under the Indenture;

(c) To subject to the lien and pledge of the Indenture for the benefit and security of the owners of the Series 2007 A Bonds then outstanding additional Revenues, properties or collateral;

(d) To modify, amend or supplement the Indenture or any supplemental indenture in such a manner to permit the qualification of the Indenture or supplemental indenture under the Trust Indenture Act of 1939, as amended, or any other similar federal statute hereafter in effect or to permit the qualification of the Series 2007 A Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, in connection therewith, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939, as amended or similar federal statute; provided, that any supplemental indenture referred to in this paragraph shall not, in the judgment of the Trustee, which may rely on the opinion of counsel, be to the prejudice of the owners of any of the Series 2007 A Bonds;

(e) To provide for the issuance of bearer bonds (which bearer bonds may be registrable as to principal only and exchangeable for fully registered bonds) in exchange for the fully registered Bonds originally authorized to be issued under the Indenture, and to provide all necessary and appropriate supplement(s) to the Indenture in connection therewith. However, no such supplement(s) shall be permitted pursuant to this paragraph unless the Trustee and the Bond Bank receive an unqualified opinion of Bond Counsel to the effect that the issuance of bearer bonds will not cause interest on the Series 2007 A Bonds to cease to be excludable from gross income for purposes of federal income taxation;

(f) To evidence the appointment of a co-trustee, successor Trustee, successor Bond Registrar or successor paying agent;

(g) To provide for the issuance of Refunding Bonds; and

(h) To modify, amend, or supplement the Indenture or any supplemental indenture in any manner that will not materially adversely affect the rights of the owners of the Bonds.

With the exception of supplemental indentures for the purposes set forth in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority of the principal amount of the Series 2007 A Bonds then outstanding which are affected (other than any such Bonds held by the Bond Bank) will have the right, from time to time, to consent to and approve the execution by the Bond Bank and the Trustee of such supplemental indenture or indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture. However, no supplemental indenture may permit or be construed as permitting, without the consent of the owners of all then-outstanding Series 2007 A Bonds, (i) an extension of the maturity of the principal of or the interest on, or a change in the redemption dates of, any Series 2007 A Bonds, or (ii) a reduction in the principal amount of any Series 2007 A Bond or a change in the redemption premium or the rate of interest on any Series 2007 A Bond, or (iii) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of the Series 2007 A Bonds the owners of which are required to consent to any such supplemental indenture, or (v) the creation of any lien on the Trust Estate or any part thereof pledged under the Indenture prior to or on a parity with the lien of the Indenture, other than a lien ratably securing all of the Series 2007 A Bonds at any time outstanding or (vi) any amendment or modification of the trusts, powers, rights, obligations, duties, remedies, or immunities of the Trustee without the written consent of the Trustee.

Provisions Relating to Financial Guaranty Insurance Policy

Notwithstanding any provisions of the Indenture to the contrary, so long as the Financial Guaranty Insurance Policy remains in effect, the Series 2007 A Bond Insurer will be recognized as the sole holder of the Series 2007 A Bonds, and as such shall have the right to control all remedies upon any default, shall be entitled to certain notices provided to Bondholders, and shall have consent rights concerning any supplemental indentures to the Indenture. In the event that the Series 2007 A Bond Insurer is required to make payments of principal or interest on the Series 2007 A Bonds, the Series 2007 A Bonds will remain outstanding under the Indenture and will not be deemed defeased or otherwise satisfied thereunder, and the Series 2007 A Bond Insurer will be subrogated to the rights of the registered owners of such Series 2007 A Bonds.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT AND THE SERIES 2007 NOTE

The following is a summary of certain additional provisions of the Loan Agreement and the Series 2007 Note not otherwise discussed in this Official Statement. The Bond Bank and the Board may amend the provisions of the Loan Agreement subject to restrictions established in the Indenture. The Summary is qualified in its entirety by reference to the Loan Agreement and the Series 2007 Note.

General

Under the Loan Agreement, the Bond Bank will loan to the Board a portion of the proceeds of the Series 2007 A Bonds for the purposes more specifically described therein. As evidence of its obligation to repay such loan, together with interest and redemption premium, if any, thereon, the Board will issue and deliver to the Bond Bank the Series 2007 Note. The Series 2007 Note will be issued in an amount equal to the aggregate principal amount of the Series 2007 A Bonds, will be payable in installments at the same time, maturities and mandatory redemption terms of the Series 2007 A Bonds (subject to certain credits), will be subject to optional redemption at the same times and with the same premiums, if any, as are applicable to the Series 2007 A Bonds, and shall provide for payments of interest equal to, and payable at the same times as, the payments of interest on the Series 2007 A Bonds allocable to the Series 2007 Note (subject to certain credits).

Under the Master Indenture, the Board will grant a security interest in its Net Revenues as security for the making of payments on the Series 2007 Note. Such security interest will attach to all Notes and Guaranties, including the Series 2007 Note, issued by the Board and any other Obligated Issuer. The Board may make any disbursement, expenditure or transfer from Net Revenues which is made in accordance with the Loan Agreement and the Master Indenture.

The Series 2007 Note will be registered in the name of the Trustee, and the Trustee will use the payments made on such Series 2007 Note to pay the debt service on the Series 2007 A Bonds. Except as provided in the Loan Agreement and the Indenture, the loan to be made under the Loan Agreement is to be evidenced solely by the Series 2007 Note and the obligation to make loan repayments does not exist separate or independent of the Series 2007 Note. In addition, the Loan Agreement contains covenants of the Board relating to its tax-exempt status, indemnification of the Bond Bank and the Trustee, limitation on indebtedness, and the application of the proceeds of the sale of the Series 2007 A Bonds.

Defaults and Remedies

Upon (1) failure of the Board to pay when due any payment on the Series 2007 Note, (2) failure of the Board to pay when due any other payment required to be made under the Loan Agreement or to observe or perform any covenant, condition or agreement on its part to be observed or performed thereunder (other than payments on the Series 2007 Note) and continuation of such failure for a period of thirty (30) days after written notice (specifying such failure and requesting that it be remedied) is given to the Board by the Bond Bank or the Trustee or (3) any Event of Default under the Master Indenture or Supplemental Master Indenture No. 3, the Bond Bank (or the Trustee) may take any one or more of the following steps: (i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bond Bank, and require the Board to carry out any agreements with or for the benefit of the Bondholders and to perform its duties under the Act or the Loan Agreement; (ii) by action or suit in equity require the Board to account as if it were the trustee of an express trust for the Bond Bank; (iii) by action or suit in equity require the Board to enjoin any acts or things which may be unlawful or in violation of the rights of the Bond Bank; or (iv) upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bondholders

have appointed a receiver or receivers of the trust estate, with such powers as the court making such appointment shall confer.

In case any proceeding taken by the Bond Bank or the Trustee on account of any failure to perform under the Loan Agreement shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Bond Bank or the Trustee, then and in every case the Bond Bank and the Trustee shall be restored to their former positions and rights thereunder, respectively, and all rights, remedies and powers of the Bond Bank and the Trustee shall continue as though no such proceeding had been taken.

No remedy conferred upon or reserved to the Bond Bank (or the Trustee) by the Loan Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any failure to perform shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient.

In the event that any agreement contained in the Loan Agreement shall be breached by either party and such breach shall thereafter be waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach thereunder. In view of the assignment of the Bond Bank's rights in and under the Loan Agreement to the Trustee under the Indenture, the Bond Bank shall have no power to waive any failure to perform under the provisions described in this paragraph without the consent of the Trustee. Any and all remedies relating to a default in the payment of principal, premium, if any, or interest on the Series 2007 Note shall be governed by the Master Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

The following summary is a summary of certain additional provisions of the Master Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirely by reference to the Master Indenture.

General

The Series 2007 Note will be issued pursuant to the Master Indenture. The Master Indenture will entitle each holder of a Note issued thereunder, including the Trustee as holder of the Series 2007 Note, to the protection of the covenants, restrictions and other obligations imposed upon the Board contained therein.

Each Note or series of Notes issued as security for an issue of Related Bonds will contain such provisions for prepaying as will permit prepayment or redemption prior to maturity of such Related Bonds in accordance with their terms. The number of Notes or series of Notes that may be issued by an Obligated Issuer under the Master Indenture is not limited. Indebtedness not evidenced by a Note may be incurred by an Obligated Issuer. An Obligated Issuer will agree not to incur any additional indebtedness other than the Additional Indebtedness described below

under "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE--Permitted Additional Indebtedness."

Payment of Principal, Premium, if any, and Interest

Each of the Board and any other Obligated Issuer agree to punctually pay the principal of and the premium, if any, and interest on each Note issued by it, and to be jointly and severally obligated with each other member of the Obligated Group to duly and punctually pay the principal of and the premium, if any, and interest on each Note issued by any other member of the Obligated Group, on the dates, at the times and at the place and in the manner provided in such Notes, the Supplemental Master Indentures and the Master Indenture when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, according to the true intent and meaning hereof.

Notwithstanding the foregoing, or any other provision of the Master Indenture, any obligation of the Board arising out of any Notes or the Master Indenture shall be payable solely out of the Net Revenues and shall not constitute a pledge of the faith or credit of the County or the State or an indebtedness or charge against the general credit or taxing powers of the County or the State within the meaning of any constitutional or statutory provision.

No person shall have any right to have the County or the State to levy an taxes or appropriate any funds for the payment of any obligation arising out of any Notes or the Master Indenture.

Covenant as to Corporate Existence and Maintenance of Properties

Each of the Board and any other Obligated Issuer covenants that:

(a) It will preserve its corporate existence, subject to certain provisions regarding consolidation and merger and all its rights, including, if applicable, its status as a Tax-Exempt Organization, and licenses to the extent necessary or desirable in the operation of its business and affairs to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualification and where the failure to so qualify would materially and adversely affect the consolidated or combined operations, revenues or financial condition of the Obligated Group in each case eliminating all material balances and transactions between or among members of the Obligated Group; provided, however, that this covenant shall not be construed to obligate it to retain or preserve any of its rights or licenses (i) no longer used or (ii) if used, the surrender of which would not, in the reasonable judgment of its Governing Body, have a material adverse effect upon its Net Income Available for Debt Service;

(b) It will at all times cause its business to be carried on and conducted in an efficient manner and its Property to be maintained, preserved and kept in good repair, working order and condition, reasonable wear and tear excepted, and all needful and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing herein contained shall be construed (i) to prevent it from ceasing to operate any portion of its Property if, in the reasonable judgment of its Governing Body, it is advisable not to operate the same for the time being or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such a sale or other disposition or (ii) to obligate it to retain, preserve, repair,

renew or replace any property, leases, rights, privileges or licenses no longer used or, in the reasonable judgment of its Governing Body, no longer deemed useful in the conduct of its business;

(c) It will conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States of America and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property to the extent that the failure to so comply, observe or conform would materially and adversely affect the consolidated or combined operations, revenues or financial condition of the Obligated Group in each case eliminating all material balances and transactions between or among members of the Obligated Group; provided, however, that this covenant shall not require it to comply with, observe and conform to any such law, order, regulation or requirements so long as the validity thereof is contested in good faith by appropriate proceedings which operate during the pendency of which to stay or otherwise prevent the enforcement of such law, order, regulation or requirements and the sale, forfeiture or loss of any of its Property in connection therewith;

(d) It will promptly pay or cause to be paid all lawful taxes, governmental and utility charges and assessments at any time levied, assessed or incurred upon or against or by it or its Property to the extent that the failure to so pay would materially and adversely affect the consolidated or combined operations, revenues or financial condition of the Obligated Group, in each case eliminating all material balances and transactions between or among members of the Obligated Group; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments by appropriate proceedings which operate during the pendency of which to stay or otherwise prevent the collection of or other realization upon the tax, charge or assessment so contested and the sale, forfeiture or loss of any of its Property to satisfy the same; provided, further, that, if any such tax, charge or assessment may be paid in installments, then its obligations under this paragraph shall be limited to the payment of such installment by the due date thereof.

(e) It will promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable to the extent that the failure to so satisfy and discharge would materially and adversely affect the consolidated or combined operations, revenues or financial condition of the Obligated Group in each case eliminating all material balances and transactions between or among members of the Obligated Group, other then any obligation or Indebtedness whose validity, amount or collectability is being contested by it in good faith by appropriate proceedings which shall operate during the pendency of which to stay or otherwise prevent the collection of or other realization upon the item so contested and the sale, forfeiture or loss of any of its Property to satisfy the same;

(f) It will at all times comply with all terms, covenants and provisions contained in any Mortgages at such time existing upon its Property or any part thereof securing any of its Indebtedness and pay or cause to be paid or to be renewed, refunded or extended all of its Mortgage Indebtedness as and when the same become due and payable to the extent that the failure to so comply, pay, renew, refund or extend would materially and adversely affect the

consolidated or combined operations, revenues or financial condition of the Obligated Group in each case eliminating all material balances and transactions between or among members of the Obligated Group; and

(g) It will:

(i) Procure and maintain all necessary licenses and permits for operation of the Hospital;

(ii) Maintain accreditation of the Hospital with the Joint Commission on Accreditation of Health Care Organizations (or any successor thereto); and

(iii) Maintain the status of the Hospital as a provider of health care services eligible for payment or reimbursement under the Medicare, Medicaid, Blue Cross-Blue Shield, commercial and equivalent insurance programs, including other federal or state programs substituted in lieu thereof or supplementary thereto;

provided, however, that it need not comply with this paragraph if and to the extent that its Governing Body has determined in good faith, evidenced by a resolution thereof, that such compliance is no longer in the best interests of such Issuer and that lack of such compliance would not materially impair the ability of such Issuer to pay its Indebtedness when due.

The provisions of paragraph (b) above are subject to the following limitations: if by reason of force majeure the Board or any other Obligated Issuer is unable in whole or in part to carry out the agreements on its part contain in said paragraph (b), it shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein includes, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States of America or of any state or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquake; fire; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery; transmission pipes or canals; partial or entire failure of utilities; or any other cause or event not reasonably within the discretion of such Issuer, and such Issuer will not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is, in the judgment of such Issuer, unfavorable to such Issuer. Nothing contained in this paragraph affects the obligations of the Board or any other Obligated Issuer to make payments or notes, which obligations shall be absolute and unconditional.

Insurance

Each of the Board and any other Obligated Issuer will maintain, or cause to be maintained, insurance covering such risks and in such amounts as, in its judgment, is adequate to protect it and its Properties and operations. The insurance required to be maintained shall be subject to the review of an Independent Insurance Consultant, and each of the Board any other Obligated Issuer shall follow any recommendations of the Independent Insurance Consultant to the extent feasible.

Self Insurance

Before the Board or any other Obligated Issuer may enter into a program of self insurance against any particular risk for which it is not on the date of the Master Indenture self-insuring, it shall receive a certificate from an Independent Insurance Consultant to the effect that (i) such self insurance program will not disqualify the Board or such other Obligated Issuer for reimbursement under Medicare or Medicaid programs or any governmental programs providing similar benefits and (ii) adequate reserves created by the Board or such other Obligated Issuer for such self insurance program are deposited and maintained with an independent corporate trustee if recommended by the Independent Insurance Consultant, unless such deposits are not a necessary requirement for reimbursement under the governmental programs referred to in clause (i) hereof and regulations thereunder then in effect. If the Board or any other Obligated Issuer enters into a program of self-insurance, the Board or such Obligated Issuer will: (a) provide the Master Trustee annually a written evaluation with respect to such self-insurance program by an Independent Insurance Consultant, which evaluation shall contain or be accompanied by a recommendation of an independent actuary as to what funding levels will be adequate to protect the Board or such Obligated Issuer against such claims; (b) maintain with an independent corporate trustee such reserves are recommended by the Independent Insurance Consultant; (c) provide the Trustee an Officer's Certificate showing compliance with clause (b) hereof; and (d) maintain a risk management and claims management program pursuant to such self insurance program.

Restrictions as to Creation of Mortgages

The Board and each other Obligated Issuer agree that it will not create or suffer to be created or exist any Mortgage upon Property now owned or hereafter acquired by it, other than Permitted Encumbrances, without effective provision being made, in each instance and by the instrument creating such Mortgage, whereby each series of Notes and each Guaranty issued and Outstanding hereunder are directly secured thereby equally and ratably with the Indebtedness to be issued and secured by such Mortgage.

Permitted Encumbrances shall consist of the following:

(i) Liens arising by reason of good faith deposit with the Board or any other Obligated Issuer in connection with tenders, leases of real estate, bids or contracts (other than contracts or the payment of money), deposits by the Board or any other Obligated Issuer to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Board, any other Obligated Issuer, any Insurance Subsidiary or any Subsidiary to maintain self insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other

social security, or to share in the privileges or benefits for companies participating in such arrangements;

(iii) Any judgment lien against the Board or any other Obligated Issuer or any Subsidiary so long as the finality of such judgment is being contested and execution thereon is stayed and so long as such judgment lien will not materially interfere with or impair the operations of the Obligated Group of the Operating Assets;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grants, license, permit or provision of law, affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the value thereof or (2) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property, (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents or resulting from governmental regulations on the use of Property, and other governmental and similar charges and any liens of mechanics, materialmen and laborers for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereof is stayed, (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title of any Property which do not materially and adversely affect the value thereof, (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such property in any manner, which rights do not materially and adversely affect the value thereof and, (E) to the extent that it affects title to any Property, this Indenture;

(v) Any liens listed as Permitted Encumbrances on Exhibit A to the Master Indenture, provided that no such lien may be extended or renewed, or modified to cover additional Property or additional Indebtedness;

(vi) Encumbrances arising from grants, loans or guarantees of the United States of America pursuant to 42 U.S.C. § 291 *et seq.* or 42 U.S.C. §300 *et seq.* and other encumbrances arising from grants or loans from, or guarantees of Indebtedness by, federal, state or local government or any agency thereof certified in an Officer's Certificate to be similar in nature to the encumbrances described in the first part of this clause (vi);

(vii) Any mortgages, security interests, liens, charges and encumbrances between members of the Obligated Group which were not incurred in contemplation of the admission of a person or a member of the Obligated Group, provided that no such lien may be extended or renewed or modified to cover additional property;

(viii) Any lease described under the caption "Sale, Lease or Other Disposition of Cash, Securities and Operational Assets" below.

(ix) Any lien on or security interest in Excluded Property;

(x) Any lien, encumbrance or security interest created by the Master Indenture;

(xi) Any other Mortgage or Property, provided that the Board and each other Obligated Issuer certify in an Officer's Certificate delivered to the Master Trustee that, after giving effect thereto, the principal amount of all Outstanding Indebtedness (other than Subordinated Indebtedness) would not in the aggregate exceed the sum of (A) eighty percent (80%) of the Book Value of the Unencumbered Property of the Obligated Group less the amount, if any, by which the current liabilities of the Obligated Group (reduced by the current installments of Long-Term Indebtedness) exceed Five Million Dollars ($5,000,000) and (B) eighty percent (80%) of the amount, if any, by which the Book Value of all Mortgaged Property of the Obligated Group exceeds one hundred twenty percent (120%) of all Outstanding Mortgage Indebtedness; or

(xii) Any Mortgage, security interest, lien, charge or encumbrance with respect to any Property of any Person which is existing on the date that such Person becomes an Obligated Issuer hereunder or merges or consolidates with an Obligated Issuer and which was not incurred in contemplation of such event; provided that no such Mortgage, security interest, lien or encumbrance so described or the indebtedness secured thereby may be extended or renewed (which term shall not apply to the filing of any continuation statements under the Uniform Commercial Code) or modified to spread to any Property not subject to such Mortgage, security interest, lien or encumbrance on the date of such event, except to the extent that such Mortgage, security interest, lien or encumbrance, as so extended, renewed or modified could have been granted or created under any provision of the Master Indenture.

Restrictions as to Incurrence of Additional Indebtedness

The Board and any other Obligated Issuer agree not to incur any Additional Indebtedness except one or more of the following:

(a) Long-Term Indebtedness, including Notes and Guaranties, provided that:

(i) The Master Trustee receives an Officer's Certificate stating the use or uses and estimated cost of the facilities, if any, to be financed with such Long-Term Indebtedness (if other than a Guaranty); and

(ii) Either:

(A) The Master Trustee receives a certificate of the Obligated Group Representative stating that the Debt Service Coverage Ratio (taking into account the maximum annual scheduled debt service on the proposed Long-Term Indebtedness then being issued in accordance with the assumptions set forth in the definition of Debt Service Coverage Ratio) for the most recent Fiscal Year for which audited financial statements are available, preceding the date of the proposed issuance of such Long-Term Indebtedness, was at least one and thirty-five hundredths (1.35); or

(B) The Master Trustee receives (x) a certificate of the Obligated Group Representative stating that the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, preceding the date of the proposed issuance of such Long-Term Indebtedness, was at least one and twenty hundredths (1.20) and (y) an opinion of an Independent Consultant that the Debt Service Coverage Ratio for the Fiscal

Year immediately succeeding the date on which it is estimated that the facilities to be financed with such Long-Term Indebtedness (if other than a Guaranty) will be placed in service (or, in the event none of such Long-Term Indebtedness is being issued to finance capital improvements or in the event of a Guaranty, the Debt Service Coverage Ratio for the Fiscal Year immediately succeeding the date on which such Long-Term Indebtedness is issued), after giving effect to the issuance of such Long-Term Indebtedness and the revenues generated by the facilities thereby financed is expected to be at least one and twenty-five hundredths (1.25); provided, however, an opinion of an Independent Consultant will not be required if the Master Trustee receives a certificate of the Obligated Group Representative that such Debt Service Coverage Ratio is at least one and seventy-five hundredths (1.75); or

(C) If, in the opinion of an Independent Consultant, applicable laws or regulations have prevented or will prevent the Board or any Obligated Issuer from generating the Debt Service Coverage Ratio specified in (B) above, the conditions thereof will be deemed satisfied provided that (x) the Master Trustee receives a certificate of the Obligated Group Representative stating that the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available preceding the date of the proposed issuance of such Long-Term Indebtedness is at least one and no hundredths (1.00), and (y) the Master Trustee receives an opinion of an Independent Consultant that under such applicable laws or regulations or agreements the Debt Service Coverage Ratio for the Fiscal Year immediately succeeding the date on which it is estimated that the facilities to be financed with such Long-Term Indebtedness (if other than a Guaranty) will be placed in service (or, in the event none of such Long-Term Indebtedness is being issued to finance capital improvements or in the event of a Guaranty, the Debt Service Coverage Ratio for the Fiscal Year immediately succeeding the date on which such Long-Term Indebtedness is issued), after giving effect to the issuance of such Long-Term Indebtedness and the revenues generated by the facilities thereby financed is expected to be at least one and no hundredths (1.00).

(b) Completion Indebtedness, provided that a certificate of an architect is filed with the Master Trustee stating the necessity for (i)(A) the improvement, replacement, renovation or substitutions for or additions to facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred due to faulty design, damage to or destruction of such facilities or (B) the completion of facilities for which Long-Term Indebtedness or Interim Indebtedness has been incurred, (ii) the amount of such Completion Indebtedness needed and (iii) the use to which the proceeds of such Completion Indebtedness will be put.

(c) Refunding Indebtedness which has maximum annual debt service no greater than one hundred and five percent (105%) of the maximum annual debt service of the Indebtedness being refunded thereby.

(d) Short-Term Indebtedness in a principal amount not to exceed fifteen percent (15%) of the net revenues of the Obligated Group from patient services for the most recent Fiscal Year for which audited financial statements are available; provided that the principal amount of such Short-Term Indebtedness be decreased to three percent (3%) of the net revenues of the Obligated Group from patient services for thirty (30) consecutive days each Fiscal Year, except that such thirty (30) day reduction need not be met if an Independent Consultant certifies that any third party reimbursement entity contributing a significant amount to the net revenues of the

Obligated Group is in excess of an average of ninety (90) days overdue on accounts receivable by the Obligated Group; provided, further, the principal amount of such Short-Term Indebtedness shall not in the aggregate together with the obligations described in paragraph (h) below exceed twenty percent (20%) of the net revenues of the Obligated Group from patient services.

(e) Commitment Indebtedness, provided that the requirements of paragraph (a)(ii) above would be satisfied under the assumption that the Commitment Indebtedness would not be outstanding but that the commitment supplied by the institutional leader is drawn upon in full on the date the Commitment Indebtedness is entered into and that the amount so drawn is reimbursed or repaid with interest by the Board or such Obligated Issuer to the institutional lender in accordance with the terms set forth in the credit or other reimbursement agreement; provided, if Commitment Indebtedness is incurred under this paragraph (e), the Board or such Obligated Issuer may draw upon the commitment supplied by the institutional lender without satisfying the other tests described herein.

(f) Subordinated Indebtedness.

(g) Interim Indebtedness, provided that all requirements of paragraph (a)(ii) above would be satisfied if such Indebtedness were being incurred with substantially equal annual payments to be paid for principal and interest over a term of twenty-five (25) years and at an interest rate set forth in a certificate of the Obligated Group Representative (which shall be accompanied by and based on an opinion by a banking or investment banking institution, which shall be acceptable to the Master Trustee and knowledgeable in the matters of health care finance) to be the term over which and the interest rate at which it could reasonably expect to borrow the same amount by issuing Long-Term Indebtedness, the principal of which is amortized over a twenty-five (25) year term.

(h) Lease obligations capitalized under generally accepted accounting principles the rentals of which are not in the aggregate in excess of fifteen percent (15%) of the net revenues of the Obligated Group from patient services for the most recent Fiscal Year for which audited financial statements are available; provided that such rentals shall not in the aggregate together with the principal amount of the Short-Term Indebtedness described in paragraph (d) above exceed twenty percent (20%) of such net revenues of the Obligated Group from patient services.

(i) Indebtedness of the Board in an aggregate amount not to exceed $5,000,000 (as adjusted for inflation over time after issuance of the Series 2007 A Bonds) for the acquisition of Operating Assets.

Completion Indebtedness, Refunding Indebtedness, Commitment Indebtedness and Subordinated Indebtedness which is Long-Term Indebtedness shall not be subject to the tests set forth in paragraph (a) above, unless the Board or such Obligated Issuer elects to issue such Indebtedness as Long-Term Indebtedness pursuant to paragraph (a) above. In addition, any Indebtedness issued or guaranteed by the Board pursuant to any of the preceding paragraphs may at any time from time to time, if the same is permitted to be issued or guaranteed pursuant to another paragraph, be reclassified by the Board as having been issued or guaranteed by the Board pursuant to such other paragraph.

Debt Service Coverage Ratio

Each of the Board and any other Obligated Issuer will cause the Debt Service Coverage Ratio of the Obligated Group to be calculated for each Fiscal Year as soon as practicable, but in no event later than five (5) months following the end of such Fiscal Year. If the Debt Service Coverage Ratio, as calculated at the end of any Fiscal Year, is below one and fifteen hundredths (1.15), each of the Board and any other Obligated Issuer shall retain an Independent Consultant to make recommendations to increase the Debt Service Coverage Ration for subsequent Fiscal Years to at least one and fifteen hundredths (1.15) or, if in the opinion of any Independent Consultant the attainment of such level is impracticable, to the highest practicable level; provided, such Independent Consultant need not be retained to make such recommendations more frequently than once every two (2) Fiscal Years. Each of the Board and any other Obligated Issuer will follow the recommendations of the Independent Consultant, to the extent feasible, and, promptly upon its receipt of such recommendation and subject to existing law and applicable third party payor programs or agreements, will revise its rates, fees or charges or its methods of operation and shall take such other action as are in conformity with such recommendations. So long as the Board and any other Obligated Issuer follow such Independent Consultant's recommendations, this requirement shall be deemed to have been complied with, even if the Debt Service Coverage Ratio for any subsequent Fiscal Year is below one and fifteen hundredths (1.15), unless and until the Debt Service Coverage Ratio falls below one and no hundredths (1.00).

Sale, Lease or Other Disposition of Cash, Securities and Operating Assets

(a) Neither the Board nor any other Obligated Issuer will sell, lease or otherwise dispose of any of its cash, securities or other cash equivalents, or Operating Assets (other than in the ordinary course of business or as described below), unless the Board or each such other Obligated Issuer certify to the Master Trustee, which certification must be accompanied by evidence satisfactory to the Master Trustee in its reasonable judgment, in an Officer's Certificate that:

(i) With respect to the sale, lease or disposition of Operating Assets, in the judgment of the Board or such other Obligated Issuer, such Operating Assets have, or within the next succeeding twenty-four (24) calendar months are reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary, provided the sale, lease, removal or other disposition thereof will impair the structural soundness, efficiency or economic value of the remaining Operating Assets;

(ii) Such sale, lease or disposition is solely from the Board or such other Obligated Issuer to the Board or any other Obligated Issuer;

(iii) Either (but in either case only if the sale, lease or disposition of such Operating Assets will not impair the structural soundness, efficiency or economic value of the remaining Operating Assets): (A) the leasing of all or any part of its Operating Assets is pursuant to the reasonable requirements of the Board or such other Obligated Issuer and upon terms no less favorable to the Board or such other Obligated Issuer than are obtainable in a comparable arms length transaction or (B) the sale or disposition of all or any part of its Operating Assets is

pursuant to the reasonable requirements of the Board or such Obligated Issuer and for consideration, which takes the form of cash, securities or real or personal property, having a Fair Market Value at least equal to the Fair Market Value of such Operating Assets sold or disposed of,

(iv) Either:

(1) The Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available preceding the proposed date of such transaction, assuming such transaction actually occurred at the beginning of such period, would not be less than one and twenty hundredths (1.20); or

(2) An opinion of an Independent Consultant is delivered to the Master Trustee to the effect that the Debt Service Coverage Ratios for each of the two (2) Fiscal Years immediately following the proposed date of such transaction are expected to be:

(AA) Greater than one and twenty-five hundredths (1.25); or

(BB) Higher than it would have been had such transactions not been effected; or

(3) A certificate of an Obligated Group Representative is delivered to the Master Trustee to the effect that the Debt Service Coverage Ratio for each of the two (2) Fiscal Years immediately following the proposed date of such transaction is expected to be greater than one and seventy-five hundredths (1.75);

(v) There has occurred damage to or destruction of or the taking of any portion or temporary use by the exercise of the power of eminent domain of the Operating Assets of the Board or such other Obligated Issuer in an amount at least equal to ten percent (10%) of the aggregate Book Value of all Property of the Obligated Group and the Obligated Group Representative has elected not to repair or restore said Operating Assets, in which case the Net Proceeds of any related insurance or award in eminent domain proceedings shall be applied as provided in paragraph (b) under the caption "Damage, Destruction and Condemnation" below; or

(vi) Such sale, lease or disposition involves only Excluded Property.

(b) The Board or any other Obligated Issuer may sell, lease or otherwise dispose of its cash, securities or other cash equivalents, or Operating Assets (other than in the ordinary course of business), without satisfying the conditions that must be certified pursuant to paragraph (a) above, if such cash, securities or other cash equivalents, or Operating Assets are sold, leased, conveyed, transferred or otherwise disposed of pursuant to this paragraph (b) and: (i) the face value of the cash, securities and other cash equivalents disposed of and the aggregate Book Value of the Operating Assets sold, leased or otherwise disposed of pursuant to this paragraph (b) to any Person or Persons (including any Affiliate or Affiliates) in any one (1) Fiscal Year does not exceed eight percent (8%) of the aggregate Book Value of all Property of the Obligated Group as reflected on the audited financial statement of the Obligated Group at the beginning of such Fiscal Year; and (ii) the face value of the cash, securities and other cash equivalents disposed of and the aggregate Book Value of the Operating Assets sold, leased or otherwise

disposed of pursuant to this paragraph (b) to any Person or Persons (excluding any Affiliate or Affiliates) in any one (1) Fiscal Year does not exceed five percent (5%) of the aggregate Book Value of all Property of the Obligated Group as reflected on the audited financial statement of the Obligated Group at the beginning of such Fiscal Year.

Consolidation, Merger, Sale or Conveyance

(a) Neither the Board nor any other Obligated Issuer will merge or consolidate with any other corporation not a member of the Obligated Group or sell or convey all or substantially all of its assets to any person not a member of the Obligated Group, unless: (i)(A) either such Issuer will be the continuing corporation, or (B) the successor corporation (if other than such Issuer) will be a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation will expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Notes and Guaranties issued by such Issuer hereunder and all Guaranties by such Issuer of Indebtedness of any other member of the Obligated Group, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of this Indenture to be performed or observed by such Issuer by supplemental indenture satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such corporation; (ii)(A) such Issuer or such successor corporation, as the case may be, immediately after such merger or consolidation, or such sale conveyance, would not be in default in the performance or observance of any covenants or conditions of this Indenture, (B) the conditions described in paragraph (a)(ii) under the caption "Restrictions on Incurrence of Additional Indebtedness" above, would be met for the incurrence of One Dollar of Long-Term Additional Indebtedness by such Issuer or successor corporation, and (C) the unrestricted fund balances of the Issuer or the successor corporation, as the case may be, for the first Fiscal Year following such merger, consolidation, sale or conveyance will be at least ninety percent (90%) of the unrestricted fund balances of the Issuer for the Fiscal Year preceding such event as a result of such merger, consolidation, sale or conveyance; (iii) in the event such Issuer is not the successor corporation, such successor corporation demonstrates, in a report of an Independent Consultant delivered to the Master Trustee that its Debt Service Coverage Ratios, computed as though each such ratio were the Debt Service Coverage Ratios, for each of the two (2) consecutive Fiscal Years immediately succeeding the proposed date of such merger, consolidation, sale or conveyance is expected to be at least one and twenty-five hundredths (1.25), and (v) there has been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such merger, consolidation, sale or conveyance would not adversely affect the exemption from federal income taxation of interest payable on any issue of Related Bonds then outstanding under a Related Bond Indenture.

(b) In the case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for such Issuer, with the same effect as if it had been named in the Master Indenture as the Board or such other Obligated Issuer. Such successor corporation thereupon may cause to be signed, and may issue in its own name, Notes or Guaranties issuable under the Master Indenture; and upon the order of such successor corporation, instead of such Issuer, and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee will authenticate and deliver Notes that such successor corporation shall have caused to

be signed and delivered to the Master Trustee. All Outstanding Notes so issued and all Outstanding Guaranties theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Notes and Guaranties had been issued under the Master Indenture at the date of its execution.

(c) The Master Trustee, subject to the provisions of the Master Indenture relating to its duties and indemnification, may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the above requirements and that it is proper for the Master Trustee to join in the execution of any Supplemental Master Indenture provided herein.

Filing of Financial Statements, Certificates of No Default and Other Information

Each of the Board and any other Obligated Issuer agree:

(a) As soon as practicable but in no event later than six (6) months after the end of each Fiscal Year, file or cause to be filed with the Master Trustee, with each Noteholder who may have so requested or in whose behalf the Master Trustee may have so requested: (i) a revenue and expense statement of such Issuer (or of any consolidated group of companies of which such Issuer if a member) for such Fiscal Year; and (ii) a balance sheet of such Issuer (or of any consolidated group of companies of which such Issuer is a member) as of the end of such Fiscal Year; each accompanied by the certificate or opinion of the Indiana State Board of Accounts or an independent certified public accountant;

(b) As soon as practicable but in no event later than six (6) months after the end of each Fiscal Year, file or cause to be filed with the Master Trustee each Noteholder who may have so requested: (i) a combined revenue and expense statement of such Issuer (or of any consolidated group of companies of which such Issuer is a member) presenting each separately and combined, along with combining entries eliminating material intercompany balances and transactions, for such Fiscal Year; and (ii) a combining balance sheet presented on the basis described in (i) above as of the end of each Fiscal Year; each accompanied by the certificate or opinion of the Indiana State Board of Accounts or an independent certified public accountant;

(c) As soon as practicable but in no event later than six (6) months after the end of each Fiscal Year, file or cause to be filed with the Master Trustee and each Noteholder who may have so requested, an Officer's Certificate of such Issuer and a certificate of an independent certified public accountant stating whether or not, to the best knowledge of such Person, such Issuer is in default in the performance of any covenant contained in the Master Indenture or a Master Supplemental Indenture and, if so, specifying each such default of which such Person has knowledge;

(d) If an Event of Default has occurred and is continuing: (i) file or cause to be filed with the Master Trustee such other financial statements and information concerning the operations and financial affairs of such Issuer (or of any consolidated group of companies of which such Issue is a member) as the Master Trustee may from time to time reasonably request, excluding donor records, patient records, personnel records, medical staff records, medical staff committee records and any other records the confidentiality of which may be protected by law;

and (ii) provide access to the facilities of such Issuer for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request; and

(e) Within ten (10) days after such Issuer's receipt thereof, file with the Master Trustee a copy of each report required by the Master Indenture to be prepared by an Independent Consultant or an Independent Insurance Consultant.

Restrictions on Guaranties

Neither the Board nor any other Obligated Issuer will enter into, or become liable after the date of the Master Indenture in respect of, any Guaranty unless: (i) such Guaranty could then be incurred as Long-Term Indebtedness under paragraph (a) under the caption "Restrictions as to Incurrence of Additional Indebtedness" above; or (ii) such Guaranty is of Indebtedness of another member of the Obligated Group or of Related Bonds.

Damage, Destruction and Condemnation

(a) In case of any damage to or destruction of or the taking of any portion or temporary use by the exercise of the power of eminent domain of the Operating Assets, each of the Board and any other Obligated Issuer will cause the Obligated Group Representative to promptly give or cause to be given written notice thereof to the Master Trustee generally describing the nature and extent of such damage, destruction or taking. Unless the Obligated Group Representative exercises the option to direct the redemption of Notes pursuant to a Supplemental Master Indenture, each of the Board and any other Obligated Issuer will, whether or not any Net Proceeds of insurance or award in eminent domain proceedings received on account of such damage, destruction or taking is sufficient for such purpose, promptly commence and complete, or cause to be commenced and completed, the repair, replacement or restoration of the Operating Assets as nearly as practicable to the value, condition and character thereof existing immediately prior to such damage, destruction or taking, with such changes or alterations as such Issuer may deem necessary for proper operation of the Operating Assets.

(b) In connection with the repair, replacement or restoration of Operating Assets pursuant to paragraph (a) above (i) if the total Net Proceeds of insurance or awards in eminent domain proceedings do not exceed ten percent (10%) of the aggregate Book Value of all Property then owned by the members of the Obligated Group, such Net Proceeds will be paid as directed by the Obligated Group Representative; and (ii) if the total Net Proceeds exceed such amount, such Net Proceeds will be paid to and held by the Master Trustee in a separate insurance loss account, for application of as much as may be necessary of the Net Proceeds to the payment of the costs or repair, replacement, rebuilding or restoration, either on completion thereof or as the work progresses, as directed by the Obligated Group Representative. The Master Trustee may, prior to making payment from such insurance loss account, require the Obligated Group Representative to provide evidence that, or deposit with the Master Trustee moneys to be placed in such insurance loss account so that, there will be adequate moneys available for such repair replacement and restoration. The Master Trustee is not obliged to make any payment from such insurance loss account if there exists an Event of Default under the Master Indenture. Any balance of the Net Proceeds held by the Master Trustee remaining after payment of all costs of

such repair, replacement, rebuilding or restoration will be paid as directed by the Obligated Group Representative.

(c) If, in lieu of repair, replacement or restoration, the Obligated Group Representative has exercised the option to direct the redemption of Notes pursuant to the provisions of one (1) or more Supplemental Master Indentures, an amount equal to any Net Proceeds received by the Master Trustee prior to such redemption shall (together with any investment income therefrom) be credited against the amount payable by the Obligated Group pursuant to such Supplemental Master Indentures designated by the Obligated Group Representative to effect such redemption and such Net Proceeds, together with any investment income therefrom, will be applied in accordance with the applicable Supplemental Master Indentures.

Events of Default

Events of Default, as used in the Master Indenture, mean any of the following events, whatever the reason for such Event of Default and whether it is voluntary or involuntary or comes about or is effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body:

(a) The Board or any other Obligated Issuer fails to make any payment of the principal of or premium, if any, or interest on any Note or Notes or any Indebtedness collateralized or secured by any Note or Notes or fails to make any payment on any Guaranty when and as the same becomes due and payable, whether by maturity, by acceleration or otherwise, in accordance with the terms thereof, the Master Indenture and of the Supplemental Master Indentures and the continuance of such default beyond the period of grace, if any, set forth in the Supplemental Master Indentures or (in the case of a Note or Notes collateralizing or securing an issue of Related Bonds) the Related Bond Indenture, as the case may be; or

(b) The Board or any other Obligated Issuer fails to duly observe or perform any other covenant or agreement on its part contained in the Master Indenture or in a Supplemental Master Indenture to which it is a party for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, has been given to the members of the Obligated Group, the Related Bond Trustee and the Obligated Group Representative by the Master Trustee, or to the members of the Obligated Group and the Master Trustee by the holders of at least twenty-five percent (25%) in aggregate principal amount of Notes then Outstanding provided that if any such default can be cured by the Board or any other Obligated Issuer but cannot be cured within the thirty (30) day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by such Issuer within such thirty (30) day period and diligently pursued until the default is corrected; or

(c) The Board or any other Obligated Issuer defaults in the payment of any Indebtedness (other than Notes or Guaranties issued and outstanding under the Master Indenture) then outstanding in an amount exceeding $100,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date hereof), whether such Indebtedness now exists or is hereafter created, and any period of grace

with respect thereto has expired, or an event of default as defined in any Mortgage, indenture or instrument under which there is issued or by which there is secured or evidenced, any Indebtedness then outstanding in an amount exceeding $100,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date hereof), whether such Indebtedness now exists or is hereafter created, occurs, which default in payment or event of default results in such Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; provided that any such failure by an Obligated Issuer shall not be an event of default under this paragraph if such Obligated Issuer is diligently contesting in good faith its obligation to pay such Indebtedness and has deposited with the Master Trustee the amount of such disputed Indebtedness with instructions to hold such amount in escrow pending the resolution of such dispute and to deliver such amount or portion thereto determined to be owing to the holder of such Indebtedness or the Obligated Issuer, as appropriate, upon such resolution (the Obligated Issuer being entitled to direct the investment of such amount while in escrow and being entitled to receive the investment earnings thereon); or

(d) The Board or any other Obligated Issuer (i) admits in writing its inability to pay its debts generally as they become due, (ii) has an order for relief entered in any case commenced by or against it under the federal bankruptcy laws, as now or hereafter in effect, (iii) commences a proceeding under any federal or state bankruptcy, insolvency, reorganization or other similar law, or has such. a proceeding commenced against it and either has an order of insolvency or reorganization entered against it or has the proceeding remain undismissed and unstayed for ninety (90) days, (iv) makes an assignment for the benefit of creditors or (v) has a receiver or trustee appointed for it or for the whole or any substantial part of its property; provided that any of such occurrences shall not be an Event of Default under this paragraph unless any other members of the Obligated Group have failed to deposit or cause to be deposited with the Master Trustee one or more Notes of one or more members of the Obligated Group in substitution for the Notes of the Obligated Issuer in default under this paragraph; or

(e) Any representation or warranty regarding timely payment of amounts due on Notes, or due authorization of documents is untrue in any material respect as of the date of issuance or making thereof and is not corrected within 30 days after written notice thereof to the Obligated Group Representative by the Master Trustee; or

(f) (i) Any judgment, writ or warrant of attachment or of any similar process in an amount in excess of $100,000 (adjusted proportionately for each increase or decrease in the Consumer Price Index from the Consumer Price Index in effect as of the date hereof) is entered or filed against any Obligated Issuer or against any of its Property and remains unvacated, unpaid, unbonded, uninsured or unstayed for a period of 60 days, and (ii) the Obligated Group has failed to deposit with the Master Trustee within 15 calendar days of the Obligated Group Representative's receipt of written notice from the Master Trustee that an event described in this subsection has occurred, an amount sufficient to pay such judgment, writ or warrant of attachment or similar process in full.

Upon the occurrence of an Event of Default, then and in each and every such case, unless the principal of Notes has already become due and payable, the Master Trustee may, and if requested by the holders of, or by one or more Related Bond Trustees acting on behalf of the

holders of, a majority in aggregate principal amount of Notes of any series then Outstanding, the Master Trustee shall, by notice in writing to the members of the Obligated Group, declare the principal of all Notes or the Notes of such series to be immediately due and payable, and upon any such declaration the same shall be and become immediately due and payable, anything in the Master Indenture or in the Notes of such series contained to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of all Notes of such series shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due has been obtained or entered as hereinafter provided, the members of the Obligated Group pay or deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Notes and the principal of and premium, if any, on all such Notes that have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate specified in the Supplemental Master Indenture) and the expenses of the Master Trustee, and any and all Events of Default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Notes that have become due by acceleration, have been remedied, the Master Trustee may, and, upon the written request of the holders of a majority in principal amount of Notes of such series shall, waive all Events of Default and rescind an annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Bondholders Treated as Owners of Notes

For purposes of determining whether (i) pursuant to provisions of the Master Indenture regarding the right of the holder(s) of Notes to direct proceedings and waive defaults, holders of the requisite percentage in aggregate principal amount of Notes of any series then outstanding have directed the time, method and place of conducting any proceeding described thereon or have waived any Event of Default or its consequences, (ii) holders of the requisite percentage in aggregate principal amount of Notes of any series then outstanding have requested or demand that the Master Trustee take any action described therein, or (iii) pursuant to any other provision of the Master Indenture, holders of the requisite percentage in aggregate principal amount of Notes of any Series then outstanding have requested, demanded or consented to the taking of action described in such provision or have requested or demanded that such action not be taken or have consented to the failure to take such action, the following attribution principles shall apply where Notes and Related Bonds have been issued: (A) each holder of any Related Bonds which are fully registered (other than to bearer) or registered only as to principal (other than to bearer) shall be deemed to own directly a percentage of the aggregate principal amount of such Notes, which percentage shall equal a fraction, the numeration of which shall equal the aggregate principal amount of such Related Bonds then outstanding and owned by such holder and the denominator of which shall equal the aggregate principal amount of all such Related Bonds then outstanding, and (B) the Related Bond Trustee shall be deemed to own directly a percentage of the aggregate principal amount of such Notes, which percentage shall equal a fraction, the numerator of which shall equal the aggregate principal amount of such Related Bonds then outstanding which are coupon bonds or which are registered to bearer and the denominator of which shall equal the aggregate principal amount of all such Related Bonds then outstanding.

The Related Bond Trustee shall certify to the Master Trustee the percentage of the aggregate principal amount of the Notes deemed owned by the Related Bond Trustee and by the

holders of the Related Bonds pursuant to the preceding paragraph and the Master Trustee may conclusively rely upon such certification.

SUMMARY OF CERTAIN PROVISIONS OF SUPPLEMENTAL MASTER INDENTURE NO. 3

The following is a summary of certain additional provisions of Supplemental Master Indenture No. 3 not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to Supplemental Master Indenture No. 3.

The Series 2007 Note is issued pursuant to the Master Indenture, as supplemented by the Supplemental Master Indenture No. 3. The Supplemental Master Indenture No. 3 provides that the Series 2007 Note will be subject to prepayment prior to maturity to the extent that the Series 2007 A Bonds are subject to redemption prior to maturity.

In addition, the Board agrees to make payments to the Trustee under the Indenture for deposit into the General Account of the General Fund as described under the caption "REVENUES, FUNDS AND ACCOUNTS--Deposit of Net Proceeds of Series 2007 A Bonds, Revenues, and Other Receipts," on the following dates:

(a) Into the General Account of the General Fund under the Indenture, not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, such amounts as may be necessary to pay interest due to be paid on the Series 2007 Note on such Interest Payment Date; provided, however, that no such payment need be made to the extent monies in such General Account of the General Fund available for payment of interest on the Bonds on such Interest Payment Date are already sufficient to pay the interest on the Bonds due to be paid on such Interest Payment Date; and

(b) Into the General Account of the General Fund under the Indenture, not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, such amounts as may be necessary, if any, to pay principal due to be paid on the Series 2007 Note on such Interest Payment Date; provided, however, that no such payment need be made to the extent monies in such General Account or the General Fund available for payment of principal of the Bonds on such Interest Payment Date are already sufficient to pay the principal of the Bonds due to be paid on the such Interest Payment Date.

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APPENDIX E

DEFINITIONS

The following are definitions of certain terms used in the Official Statement, including its Appendices:

"Account" means any of the accounts established, held and disbursed by the Trustee under the Indenture.

"Act" means Indiana Code Title 5, Article 1.5, as amended.

"Additional Indebtedness" means any Indebtedness (including Notes and Guaranties other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group) incurred subsequent to the date of issuance of the Series 2007 Note.

"Authorized Officer" means the Chairman, the Vice Chairman, or the Executive Director of the Bond Bank.

"Authorized Official" means the duly elected or appointed Chairman or Vice Chairman of the Board or the President or Vice President of Finance of the Hospital.

"Board" means The Board of Trustees of Hendricks County Hospital, a body corporate and politic organized and existing under Indiana Code 16-22, and any permitted successor to such Board under the Master Indenture.

"Bond Bank" means the Indiana Bond Bank, established and existing under the provisions of the Act as a body corporate and politic and an instrumentality, but not an agency, of the State, or any agency, board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the Bond Bank by the Act shall be given by law.

"Bondholder" "Owner" or "owner" or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any outstanding Bond or Bonds.

"Bond Register" means the registration books maintained by the Trustee as Registrar pursuant to the Indenture.

"Bond Registrar" or "Registrar" means the Trustee acting as Registrar under the Indenture.

"Bond Year" means, with respect to the Bonds, the one-year period (or shorter period from the date of issue) ending on March 31 of each year.

"Bonds" means the Series 2007 A Bonds and any Refunding Bonds issued and secured under the Act and the Indenture.

"Book Value" means (i) when used in connection with Property of the Board or any other Obligated Issuer, the value of such Property, net of accumulated depreciation, as it is carried on the books of account of such person and in conformity with generally accepted accounting principles and (ii) when used in connection with Property of the Obligated Group, the aggregate of the values so determined with respect to the Property of each member of the Obligated Group.

"Business Day" means any day other than a Saturday, Sunday or legal holiday or any other day on which banking institutions are authorized to close in the State.

"Cash Flow Certificate" means a certificate prepared in accordance with section 6.18 of the Indenture to the effect that immediately after the occurrence or non-occurrence of a specific action or omission, as appropriate, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts and available therefor as provided in section 6.18 of the Indenture, will at least be sufficient on each Interest Payment Date to provide payment of the principal and interest of the outstanding Bonds due on such date and the payment of Program Expenses, if any.

"Closing Date" means the date on which the Bonds are delivered by the Bond Bank against payment therefor pursuant to the provisions of the Indenture.

"Code" means the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2007 A Bonds, and the applicable judicial decisions, published rulings and regulations promulgated or proposed thereunder or under the Internal Revenue Code of 1954.

"Commitment Indebtedness" means any Indebtedness incurred by the Board or any Obligated Issuer for borrowed money with respect to which an institutional lender of recognized standing acceptable to the Trustee has issued a commitment to provide funds to secure the obligation of the Hoard of such Obligated Issuer to make payment on such Indebtedness or the obligation of the Related Issuer of any Related Bonds secured by such Indebtedness of the Board of such Obligated Issuer. "Completion Indebtedness" means any Long-Term Additional Indebtedness incurred by the Board or any other Obligated Issuer for the purpose of financing: (1) the improvement, replacement, renovation or substitution of, or additions to, facilities for which Long-Term Indebtedness or Interim indebtedness has been incurred, necessitated by faulty design, damage to or destruction of such facilities, or (ii) the completion of facilities for which Long-Term Indebtedness or Interim Indebtedness has. been issued or incurred.

"Completion Notes" means any Notes that constitute Completion Indebtedness.

"Consumer Price Index" means the Consumer Price Index for Urban Wage Earners and Clerical Workers as finally issued for Cincinnati, Ohio/Kentucky/Indiana, by the Bureau of Labor Statistics of the United States Department of Labor, or any successor thereto, for May 2007. No adjustment need be made by reference to this index unless the index has changed by ten percent (10%) or more since the last adjustment was made and no adjustment need be made on account of changes in such index which represent changes in the base upon which such index is computed rather than increases or decreases in quantities measured by such index. In the event such index should be abolished and no substitute provided, then any index, service or publication

approved by the Trustee upon recommendation of the Obligated Group Representative which most nearly provides the measurement now being provided by the Consumer Price Index shall be used in place of the Consumer Price Index.

"Costs of Issuance Fund" means the fund so designated, established, held and disbursed by the Trustee pursuant to the Indenture.

"County" means the County of Hendricks, Indiana.

"Credit Facility" means a letter of credit, surety bond, liquidity facility, insurance policy or comparable instrument furnished by a Credit Facility Provider with respect to all or a specific portion of one or more series of Bonds to satisfy in whole or in part the Bond Bank's obligation to maintain a reserve requirement with respect thereto, but only if the debt obligations of such Credit Facility Provider are rated in one of the two highest Rating Categories by Standard & Poor's.

"Credit Facility Provider" means the bank, insurance company, financial institution or other entity providing a Credit Facility.

"Debt Service Coverage Ratio" means the ratio for the Fiscal Year in question of Net Income Available for Debt Service to the maximum annual scheduled debt service (taking into consideration the mandatory sinking fund redemption payments or deposits but excluding any requirement to pay principal or interest on any obligation to the extent that Irrevocable Deposits sufficient to pay such principal or interest have been made) of the Board and each other Obligated Issuer on Long-Term Indebtedness for any succeeding Fiscal Year, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions; provided, however, that for purposes of calculating such ratio:

(i) (A) the principal amount of any Long-Term Indebtedness having a single principal maturity and no sinking fund redemption requirements (except Long-Term Indebtedness for which no interest is payable), and (B) a single maturity of any Long-Term Indebtedness if the principal amount due at such maturity exceeds an amount equal to two hundred percent (200%) of the maximum principal amount of such Long-Term Indebtedness due (whether at maturity or pursuant to sinking fund redemption requirements) in any other Fiscal Year, shall be treated as if the amount of such single maturity has been issued over a term of twenty-five (25) years at an interest rate equal to the marginal long-term borrowing cost of the Obligated, Group as determined by an Independent Consultant and was payable in approximately equal annual payments of principal and interest;

(ii) the principal payments of any Long-Term Indebtedness having a single principal maturity, no sinking fund redemption requirements and no interest payable shall be calculated as if payable in approximately equal annual payments;

(iii) the interest for any Long-Term Indebtedness with an interest rate which changes from time to time during the term thereof and which cannot at the date of such

calculation be determined for the period under consideration, shall be calculated as if the rate on such Long-Term Indebtedness were equal to a rate determined as follows: assuming that the Long-Term Indebtedness bears the rate of interest most recently published as *The Bond Buyer Index* for 30-year revenue bonds at the time such calculation is performed; provided that such rate of interest shall be applied based on an assumed amortization of the principal amount of indebtedness is being amortized on a level debt service basis over the lesser of a 20-year period or the stated maturity of the Long-Term Indebtedness in question;

(iv) the principal and interest due on Interim Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth in paragraph (g) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" in Appendix D hereto;

(v) the principal and interest due on Commitment Indebtedness shall be treated as Long-Term Indebtedness under the assumptions set forth in paragraph (e) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE - Restrictions as to Incurrence of Additional Indebtedness" in Appendix D hereto; and

(vi) after the determination of the maximum annual scheduled debt service has been made and if capitalized interest has been funded for indebtedness included in such, calculation, such maximum amount shall be reduced by the amount of capitalized interest funded for the Fiscal Year for which the ratio is being computed unless the Indebtedness was incurred during such Fiscal Year and interest was funded only for the period during the Fiscal Year such Indebtedness was Outstanding, in which event the amount of interest deducted, shall be computed, as if the Indebtedness had been Outstanding for the full Fiscal Year and interest had been funded for such period.

"Debt Service Reserve Fund" means the Fund so designated, established, held and disbursed by the Trustee pursuant to the Indenture.

"Debt Service Reserve Fund Surety Bond" shall mean the surety bond issued by the 2007 Bond Insurer guaranteeing certain payments into the Debt Service Reserve Fund with respect to the Series 2007 A Bonds as provided therein and subject to the limitations set forth therein.

"Debt Service Reserve Requirement" means the amount required to be on deposit in or available for deposit to the Debt Service Reserve Fund equal to the maximum annual debt service on the Outstanding Bonds, and shall be equal initially to $3,920,650.00.

"Escrow Agent" means U.S. Bank National Association, as trustee and escrow agent for the Prior Bonds.

"Escrow Agreement" means the Escrow Agreement dated May 24, 2007, between the Bond Bank and the Escrow Agent.

"Event of Default" means any one or more of the events specified as such in the Indenture.

“Excepted Property” means any unimproved real property or interest therein.

“Excluded Property” means Restricted Property and any other Property of the Board and any other Obligated Issuer set forth in Exhibit C of the Master Indenture.

"Fair Market Value" means the value established for Operating Assets pursuant to an appraisal made by a Person appointed by the Obligated Group Representative and experienced in appraising the value of assets similar or identical to the Operating Assets and who is not an employee, director, partner or officer of any member of the Obligated Group and has no direct financial interest or any material indirect financial interest in any member of the Obligated Group, other than the payment to be received under a contract for services to be performed by such Person.

"Federal Securities" means (i) direct obligations of, or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America, or (ii) any certificates or other evidences of ownership interest in obligations of the character described in (i) or in specified portions thereof issued by a commercial bank having a combined capital and surplus of not less than $100,000,000, including, without limitation, portions consisting solely of the principal thereof or solely of the interest thereon, or (iii) obligations, the full payment of principal of and premium, if any, and interest on which are provided for by an Irrevocable Deposit of the Federal Securities described in clause (i) to the extent such investments are permitted by applicable law.

“Financial Guaranty Insurance Policy” shall mean the financial guaranty insurance policy issued by the Series 2007 A Bond Insurer insuring the payment when due of the principal of, and interest on, the Series 2007 A Bonds as provided therein.

“Fiscal Year” means, with respect to the Bond Bank, the period commencing on the first day of July and terminating on the last day of June of the following calendar year, and means, with respect to the Board, the period commencing on January 1 and ending on December 31 of the same calendar year.

“Fund” means any of the funds established, held and disbursed by the Trustee under the Indenture.

“General Account” means the Account so designated and established within the General Fund and held and disbursed by the Trustee pursuant to the Indenture.

“General Fund” means the Fund so designated, established, held and disbursed by the Trustee pursuant to the Indenture.

"Governing Body" means (i) (A) the Board, (B) the board of directors or the board of trustees of any other Obligated Issuer, if applicable, or (C) if there shall be no board of directors or board of trustees, such Person or body which pursuant to law or the organizational documents of the Board, or of any other Obligated Issuer, if applicable; is vested with powers similar to those vested in a board of directors or a board of trustees and (ii) any committee empowered to act on behalf of such board or body.

"Governmental Obligations" means (a) direct obligations of the United States of America: (b) obligations guaranteed as to principal and interest by the United States of America or any federal agency whose obligations are backed by the full faith and credit of the United States of America, including but not limited to: Department of Housing and Urban Development, Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration, General Services Administration, Government National Mortgage Association, Maritime Administration, Small Business Administration; which obligations include but are not limited to certificates or receipts representing direct ownership of future interest or principal payments on obligations described in clause (a) or in this clause (b) and which are held by a custodian in safekeeping on behalf of the holders of such receipts; (c) securities evidencing ownership interests in open-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, whose investments are limited to the obligations described in clauses (a) and (b) and which would be regarded by prudent businessmen as a safe investment (the fact that the Trustee or any affiliate of the Trustee is providing services to and receiving remuneration from the foregoing investment company or investment trust as investment advisor, custodian, transfer agent, registrar, or otherwise, shall not preclude the Trustee from investing in the securities of such investment company or investment trust) and to repurchase agreements fully collateralized by such obligations; and (d) obligations of any state of the United States or any political subdivision thereof, the full payment of principal, of premium, if any, and interest on which (i) is unconditionally guaranteed or insured by the United States of America, or (ii) is provided for by an irrevocable deposit of the securities described in clause (i) to the extent such investments are not permitted by law.

"Guaranty" means, when used in connection with a particular person, all obligations of such person guaranteeing or in effect guaranteeing any indebtedness or other obligation of any other person (the "primary obligor") in any manner, whether directly or indirectly, including obligations incurred through an agreement, contingent or otherwise, by such person.

(i) to purchase such indebtedness or obligation or any Property or assets constituting security therefor;

(ii) to advance or supply funds:

(A) for the purchase or payment of such indebtedness or obligation; or

(B) to maintain working capital or other balance sheet condition or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation;

(iii) to lease Property or to purchase securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of the indebtedness or obligation; or

(iv) otherwise to assure the owner of the indebtedness or obligation of the primary obligor against loss in respect thereof;

provided, however, that notwithstanding the foregoing, none of the following shall be deemed to constitute a Guaranty: (V) the endorsement in the ordinary course of business of negotiable instruments for deposit or collection, (W) the discount or sale with recourse of any such person's notes receivable or accounts receivable, (X) rentals payable in future years under leases, other than leases properly capitalized under generally accepted accounting principles, (Y) payments required to be deposited into any reserve funds pursuant to the provisions of any Related Bond Indenture or Supplemental Master Indenture and (Z) any obligation of such person guaranteeing or in effect guaranteeing any indebtedness or other obligation of the primary obligor which does not constitute a sum certain.

"Hospital" means the buildings and facilities commonly known as Hendricks Regional Health, located in Danville, Indiana, and operated as a county hospital under Indiana Code 16-22.

"Indebtedness" means all obligations shown as liabilities or as contingent liabilities on the balance sheet in accordance with generally accepted accounting principles, including Guaranties (other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group or a Guaranty of Related Bonds), for the payment of moneys incurred or assumed by the Board or any other Obligated Issuer, except: (i) rentals payable in future years under leases, other than leases properly capitalized under generally accepted accounting principles, (ii) payments required to be deposited into any Renewal, Replacement and Depreciation Fund or reserve funds pursuant to the provisions of any Related Bond Indenture or Supplemental Master Indenture, (iii) any obligation owed by one member of the Obligated Group to any other member or members of the Obligated Group, (iv) any obligation to reimburse any Person not a member of the Obligated Group for the payment of any Indebtedness to the extent that such Indebtedness is counted as Indebtedness for purposes of the calculations under the Master Indenture or the payment of the principal of and premium, if any, or the interest on any Related Bonds secured by an Indebtedness which is counted as Indebtedness for purposes of the calculation under the Indenture, or (v) advance payments by Blue Cross, Medicare, Medicaid or other third party payors.

"Independent Consultant" shall mean a firm (i) which shall not have a partner, director, officer or substantial stockholder who is either an employee, director or officer of the Board or any other Obligated Issuer, or a Subsidiary of either, or an employee, director or elected official of any Related Issuer and (ii) which shall be appointed by the Board or any other Obligated Issuer, shall be satisfactory to the Trustee and shall be qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the members of the Obligated Group and which shall have a favorable national reputation for skill and experience in the financial affairs of such facilities.

"Indenture" means the Trust Indenture dated as of May 1, 2007, between the Bond Bank and the Trustee, as supplemented or amended by any indenture supplemental hereto or amendatory hereof.

"Interest Payment Date" means any date on which interest is payable on the Bonds.

"Investment Securities" means any of the following to the extent such investments are permitted by law: (a) Governmental Obligations; (b) certificates of deposit fully and promptly secured at all times by Government Obligations; provided, that such certificates are with commercial banks, savings and loan associations, mutual savings banks, or credit unions, including the Trustee, which are eligible depositories for State of Indiana deposits under Indiana Code 5-13; (c) certificates of deposit, savings accounts, deposit accounts or depository receipts of commercial banks, savings and loan associations, mutual savings banks, or credit unions, including the Trustee, which are eligible depositories for State of Indiana deposits under Indiana Code 5-13, and which are fully insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration; (d) bankers acceptances of commercial banks, savings and loan associations or mutual savings banks, including the Trustee, which are eligible depositories for State of Indiana deposits under Indiana Code 5-13, and which mature not more than one (1) year after the date of purchase, subject to the requirements of the 2007 Bond Insurer; (e) investment agreements approved in writing by the 2007 Bond Insurer; (f) repurchase agreements approved in writing by the 2007 Bond Insurer; (g) shares of mutual funds, subject to the requirements of the 2007 Bond Insurer; and (h) investments in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's.

"Irrevocable Deposit" means the irrevocable deposit in trust of cash in an amount (or Federal Securities the principal of and interest on which will be in an amount) and under terms sufficient to pay all or a portion of the principal of or interest on, as the same shall become due, any Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Trustee, a Related Bond Trustee or any other trustee authorized to act in such capacity.

"Issuer" means the Board of any other Obligated Issuer, depending on the context.

"Loan Agreement" means the Loan Agreement dated as of May 1, 2007, between the Bond Bank and the Board, as amended and supplemented from time to time.

"Long-Term" means (i) when used in connection with Indebtedness (including Notes) other than Guaranties, Indebtedness having an original maturity greater than one (1) year or renewable at the option of the Board or any other Obligated Issuer for a period such that the full maturity would be greater than one (1) year from the date of original issuance thereof, but shall not mean Short-Term Indebtedness or Interim Indebtedness, and (ii) when used in connection with Indebtedness represented by any Guaranty (other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group), any such Indebtedness; provided, however, that, so long as any such Guaranty shall constitute a contingent liability under generally accepted accounting principles, for the purposes of any covenants in the Master Indenture or any computation provided for herein, the aggregate annual principal and interest payments on any Long-Term Indebtedness represented by such Guaranty shall be deemed to be equal to twenty percent (20%) of the principal and interest which would be payable annually if Long-Term Indebtedness other than a Guaranty were issued on the date the Board or any other Obligated Issuer enters into, or becomes liable in respect of, such Guaranty man amount equal to the maximum amount of the indebtedness or other obligation guaranteed or in effect guaranteed by such Guaranty (less any portion of such maximum amount which is attributable to interest or imputed or implicit interest), which Long-Term Indebtedness would

mature over a term of twenty-five (25) years in approximately equal annual payments of principal and interest and would have an interest rate equal to the weighted-average annual interest rate (whether actual, imputed or implicit) payable on the indebtedness or other obligation guaranteed or in effect guaranteed by such Guaranty.

“Master Indenture” means the Master Trust Indenture dated as of March 15, 1992, between the Board and Bank One Trust Company, National Association (formerly Bank One, Indianapolis, NA), as trustee.

"Master Trustee" means The Bank of New York Trust Company, N.A., Indianapolis, Indiana, a national banking association organized and existing under the laws of the United States of America, or any successor thereto, under the Master Indenture.

"Memorandum of Compliance" means the Memorandum of Compliance with Code Section 148(f) delivered by the Bond Bank to the Trustee contemporaneously with the delivery of the Series 2007 A Bonds.

"Mortgage" means any mortgage of, security interest in, lien, charge or encumbrance on or pledge of Property other than the mortgages, security interests, liens, charges and encumbrances: (i) listed in Exhibit B attached to the Master Indenture, (ii) created solely by and among members of the Obligated Group, (iii) granted in favor of the Master Trustee to secure solely the performance of all obligations under the Master Indenture, including the pledge of Net Revenues, or (iv) on a parity with or subordinate to a lien granted to the Master Trustee to secure the performance of obligations under the Indenture.

"Mortgage Indebtedness" means Indebtedness (including Notes and Guaranties other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group) secured by a Mortgage.

"Mortgaged Property" means Property that is subject to a Mortgage.

"Net Income Available for Debt Service" means, as to any period of time, the amount, if any, by which gross operating revenue (less deductions from gross revenue and excluding income from Irrevocable Deposits) and nonoperating revenue of the Board and each other Obligated Issuer exceeds Total Expenses of the Board and each other Obligated Issuer other than depreciation, amortization and interest, all as determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions; provided, however, that no determination thereof shall take into account (i) any gain or loss resulting from the extinguishment of Indebtedness of the Obligated Group, (ii) any gain or loss resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business or (iii) Restricted Property.

"Net Proceeds" means, when used with respect to any insurance or condemnation award, the gross proceeds from such insurance or condemnation award remaining after payment of all expenses incurred in the collection of such gross proceeds.

"Net Revenues" means all cash and other receipts, present and future accounts, receivables, contracts and contract rights (including particularly those between the Board or any other Obligated Issuer and the State or any a other state with respect to Medicaid, the Board or any other Obligated Issuer and any third-party insurers of any patients of the Board of such other Obligated Issuer, and the Board or any other Obligated Issuer and the United States of America with respect to Medicare or any other equivalent insurance programs or any state or federal program substituted in lieu thereof); general intangibles, documents and instruments, which are now owned or hereafter acquired by the Board or any other Obligated Issuer, and all proceeds therefrom, whether cash or noncash, and which are derived by the Board or any other Obligated Issuer from the conduct of all or any part of its operations; and all revenue and income of the Board or any other Obligated Issuer from whatever source derived, including income from the principal of investments, teases and income received from leases, and grants received by the Board or any Obligated Issuer from any source, but excluding only Restricted Moneys of the Board or any other Obligated Issuer. Notwithstanding the foregoing, only amounts in excess of Total Expenses (other than depreciation, amortization, interest and noncash items, including any gain or loss resulting from the extinguishment of Indebtedness, sale, exchange or disposition of capital assets or a change in accounting principles) shall constitute Net Revenues.

“Note” means The Board of Trustees of Hendricks County Hospital Series 2007 Note dated May 24, 2007, and delivered pursuant to the Loan Agreement.

"Noteholder" or "holder" means: (i) when used with reference to any Note or Notes, the Registered Owner of a Note, or (ii) when used with reference to any Guaranty issued under the Master Indenture, the person in whose name such Guaranty is issued.

"Obligated Group" means ‘the Board and each other Obligated Issuer, if any.

"Obligated Group Representative" means the Chairman or Vice Chairman of the Board, or the Chief Executive Officer, President or Vice President of Finance of the Hospital.

"Obligated Issuer" means (i) the Board or (ii) any other Person which has become an Obligated Issuer under the Master Indenture.

"Officer’s Certificate" means a certificate signed by the Chairman or a Vice Chairman of the Board, the Chief Executive Officer, President or Vice President of Finance of the Hospital, or any other duly authorized officer of one or more members of the Obligated Group, or any other Person in which the power to act on behalf of an Obligated Issuer is vested by law, the organizational documents of such Obligated Issuer or by subsequent action of its Governing Body.

"Operating Assets" means any or all land, leasehold interests, buildings, machinery, furniture, fixtures, equipment, hardware, supplies and inventory of, or to be acquired by, the Board and each other Obligated Issuer, whether separately or together with other such assets, all as determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material intercompany balances and transactions; provided, however, that Operating Assets shall not be deemed to include any Excepted Property.

“Opinion of Bond Counsel” means a written opinion of a nationally recognized law firm experienced in matters relating to the tax exemption of interest payable on obligations of states and their instrumentalities and political subdivisions under federal law, and which is acceptable to the Bond Bank and the Trustee.

"Opinion of Counsel" means an opinion in writing signed by legal counsel who may be an employee of or counsel to the Board or any other Obligated Issuer and who is satisfactory to the Master Trustee in its reasonable discretion.

“Outstanding” or “outstanding under the Indenture” or “outstanding hereunder,” when used with reference to the Bonds, means, at any date as of which the amount of outstanding Bonds is to be determined, the aggregate of all Bonds authorized and issued by the Bond Bank and authenticated and delivered by the Trustee under the Indenture, including any Bonds held by the Bond Bank, except:

(a) Bonds canceled or surrendered to the Trustee for cancellation after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds deemed to have been redeemed as provided in Section 4.6 or paid as provided in the Indenture: and

(c) Any Bond in lieu of or in substitution for which another Bond or Bonds shall have been issued by the Bond Bank and authenticated and delivered by the Trustee pursuant to the Indenture.

"Outstanding" means, when used in connection with Indebtedness (including Notes and Guaranties other than any Guaranty by any member of the Obligated Group of Indebtedness of any other member of the Obligated Group), as of any time, Indebtedness issued or incurred and not paid or for which payment has not been provided by deposit of money or securities with the Trustee and shall not include Notes surrendered for exchange or Notes for which replacement Notes have been issued or which the Master Indenture otherwise provides shall be deemed not to be outstanding.

"Person" or "persons" shall mean any individual, corporation, partnership, association, joint stock company, joint venture, trust, unincorporated organization, or government or agency or political subdivision thereof.

“Principal Payment Date” means an Interest Payment Date which is also a maturity date of any Bond.

“Prior Bonds” mean $7,075,000 of the Bond Bank’s outstanding Special Program Bonds, Series 2002 D (Hendricks Community Hospital Financing Program), issued in the original aggregate principal amount of $60,000,000.

“Program Expenses” means the expenses authorized to be incurred by the Bond Bank in connection with the issuance of the Bonds, including reasonable fees and expenses of the Trustee, fees and expenses of counsel, bond counsel, professional consultants and other service

professionals, costs of preparing and delivering Cash Flow Certificates pursuant to Section 6.18 of the Indenture, costs of determining and complying with any and all requirements to rebate amounts to the United States of America pursuant to the Indenture, and other incidental and related costs.

"Property" means, when used in connection with a particular Person, any and all rights, title and interests of such Person in and to any and all property, whether real or personal, tangible or intangible, and wherever situated.

"Rebate Fund" means the fund so designated, established, held and disbursed by the Trustee pursuant to the Indenture.

"Record Date" means the fifteenth calendar day of the month next preceding an Interest Payment Date.

"Redemption Account" means the Account so designated and established within the General Fund and held and disbursed by the Trustee pursuant to the Indenture.

"Refunding Bonds" means Bonds issued pursuant to Section 3.02 hereof and any Supplemental Indenture.

"Refunding Fund" means the fund so designated, established, held and disbursed by the Trustee pursuant to the Indenture.

"Refunding Indebtedness" means any Long-Term Additional Indebtedness issued for the purpose of refunding any principal and/or interest of any Outstanding Long-Term Indebtedness.

"Refunding Notes" means any additional Notes that constitute Refunding Indebtedness.

"Related Bonds" means the bonds issued by any state of the United States of America or any municipal corporation or other political subdivision formed under the laws thereof or any body corporate and politic or any constituted authority or any agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof (a "governmental issuer"), the proceeds of which obligations are paid, loaned or otherwise made available to or for the benefit of (i) the Board or any other Obligated Issuer in consideration of the execution, authentication and delivery of a Note or Notes to such governmental issuer or Related Bond Trustee or (ii) any Person other than the Board or any other Obligated Issuer in consideration of the issuance to such governmental issuer or Related Bond Trustee (A) by such Person of any indebtedness or other obligation of such Person and (B) by the Board or any other Obligated Issuer of a Guaranty issued under the Master Indenture in respect of such indebtedness or other obligation.

"Related Bond Indenture" means any indenture pursuant to which a series of Related Bonds is issued or any supplement to a Related Bond Indenture pursuant to which a series of Related Bonds issued.

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture.

"Related Issuer" means the governmental issuer of any issue of Related Bonds.

“Reserve Fund Credit Facility” means a Credit Facility provided to satisfy all or any portion of the Debt Service Reserve Requirement.

"Restricted Property" means any grant, gift, bequest, contribution or other donation and the proceeds thereof (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) which is specifically restricted by the donor or grantor, to a special object or purpose which precludes the use by an Issuer thereof for debt service or for financing the costs, or for paying the operating, maintenance and repair expenses, of facilities operated by an Issuer holding or entitled to such Property or the proceeds thereof.

"Revenues" means the income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, the Loan Agreement and the Series 2007 Note.

“Revenues” means the income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, all amounts payable by the Board under the Loan Agreement and the Note.

"Secured Indebtedness" means any Indebtedness secured by a Mortgage.

“Series 2007 A Bond Insurer” shall mean Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto or assignee thereof.

“Series 2007 A Bonds” or “Bonds” means the Indiana Bond Bank Special Program Refunding Bonds, Series 2007 A (Hendricks Regional Health Financing Program), issued and secured pursuant to the Act and the Indenture.

"Series 2007 Note" means the Board of Trustees of Hendricks County Hospital Series 2007 Note, dated the date of the Series 2007 Bonds, and delivered pursuant to the Loan Agreement.

"Short-Term" means, when used in connection with Indebtedness other than Guaranties (including Notes), Indebtedness having an original maturity less than or equal to one (1) year and not renewable at the option of the Board or any Obligated Issuer for a term greater than one (1) year beyond the date of original issuance, but shall not include Interim Indebtedness.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, and its successors and assigns, and in the event that such corporation no longer performs the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Bond Bank with notice to the Trustee.

“State” means the State of Indiana.

"Subordinated Indebtedness" means Indebtedness which, with respect to any issue thereof, is evidenced by instruments, or issued under an indenture or other document, containing

provisions for the subordination of such Indebtedness (to which appropriate reference is made in the instruments evidencing such Indebtedness) substantially as set forth in the Master Indenture.

"Subsidiary" means, with respect to each Obligated Issuer, (a) a corporation, association, business trust, joint venture, partnership or similar entity organized on a for-profit basis under the laws of any state of which such Obligated Issuer possesses, directly or indirectly, in excess of fifty percent (50%) of the voting rights with respect thereto, provided that the ability to acquire additional voting rights shall not be counted until such rights are acquired, (b) a corporation, association, business trust, joint venture, partnership or similar entity organized on a non-profit basis under the laws of any state, the articles of incorporation, code of regulations, by-laws, articles of association or similar organizational documents of which require or expressly permit such Obligated Issuer to exercise control thereof, whether through appointment of officers or employees of such Obligated Issuer or any other Obligated Issuer to such organization's Governing Body on an ex officio basis (with voting rights), appointment of members of such organization's Governing Body by such Obligated Issuer or authority of such Obligated Issuer to remove members of such organization's Governing Body, or any other means, or (c) any Subsidiary of any of the foregoing.

"Supplemental Indenture" or "indenture supplemental hereto" means any indenture supplemental to or amendatory of the Indenture as originally executed which is duly executed in accordance with the provisions of the Indenture.

"Supplemental Master Indenture" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose of creating a particular series of Notes or a particular Guaranty issued hereunder or amending or supplementing the terms hereof.

"Supplemental Note Indenture" means Supplemental Master Indenture No. 3 dated as of May 1, 2007, between the Board and The Bank of New York Trust Company, N.A., as trustee.

"Tax Covenants" means certain certifications, covenants and representations of the Bond Bank and the Series 2007 A Qualified Entity.

"Tax-Exempt Organization" means: (i) a body corporate and politic organized under the laws of the State; or (ii) a non-profit corporation organized under the laws of any state which is an organization described in Section 501(c)(3) of the Code or any successor section of the Code or of a successor statute.

"Total Expenses" means total operating and nonoperating expenses of the Board or any other Obligated Issuer, determined on a pro forma consolidated or combined basis in accordance with generally accepted accounting principles consistently applied, with the elimination of material inter-company balances and transactions and pension fund expenses not requiring, in the opinion of an independent actuary, cash contributions thereto.

"Trustee" means U.S. Bank National Association, a national banking association, and any successor trustee pursuant to the Indenture at the time serving as Trustee hereunder.

"Trust Estate" means the properties conveyed as security under the Indenture.

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APPENDIX F

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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APPENDIX G

SPECIMEN DEBT SERVICE RESERVE FUND SURETY BOND

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SURETY BOND

Ambac Assurance Corporation

Statutory Office:
c/o CT Corporation
44 East Mifflin Street
Madison, Wisconsin 53703

Administrative Office:
One State Street Plaza
New York, New York 10004
Telephone: (212) 668-0340

Policy No. SB__BE

Ambac Assurance Corporation ("Ambac"), in consideration of the payment of the premium and subject to the terms of this Surety Bond, hereby unconditionally and irrevocably guarantees the full and complete payments which are to be applied to payment of principal of and interest on the Obligations (as hereinafter defined) and which are required to be made by or on behalf of the _____ (the "Obligor") to _____ (the "Trustee"), as such payments are due by the Obligor but shall not be so paid pursuant to a _____ of the Obligor, dated as of _____ (the "Ordinance"), by and between the Obligor and the Trustee, authorizing the issuance of $ (the "Obligations") of said Obligor and providing the terms and conditions for the issuance of said Obligations; provided that the amount available at any particular time to be paid to the Trustee under the terms hereof shall not exceed the Surety Bond Coverage, defined herein as the lesser of $_____ or the Debt Service Reserve Fund Requirement for the Obligations, as that term is defined in the Ordinance (the "Reserve Requirement"). The Surety Bond Coverage shall be reduced and may be reinstated from time to time as set forth herein.

1. As used herein, the term "Owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the applicable Trustee, the Obligor or any designee of the Obligor for such purpose. The term "Owner" shall not include the Obligor or any person or entity whose obligation or obligations by agreement constitute the underlying security or source of payment of the Obligations.

2. Upon the later of: (i) one (1) day after receipt by the General Counsel of Ambac of a demand for payment in the form attached hereto as Attachment 1 (the "Demand for Payment"), duly executed by the Trustee certifying that payment due as required by the Ordinance has not been made to the Trustee; or (ii) the payment date of the Obligations as specified in the Demand for Payment presented by the Trustee to the General Counsel of Ambac, Ambac will make a deposit of funds in an account with the Trustee or its successor, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage.

3. Demand for Payment hereunder may be made by prepaid telecopy, telex, or telegram of the executed Demand for Payment c/o the General Counsel of Ambac. If a Demand for Payment made hereunder does not, in any instance, conform to the terms and conditions of this Surety Bond, Ambac shall give notice to the Trustee, as promptly as reasonably practicable that such Demand for Payment was not effected in accordance with the terms and conditions of this Surety Bond and briefly state the reason(s) therefor. Upon being notified that such Demand for Payment was not effected in accordance with this Surety Bond, the Trustee may attempt to correct any such nonconforming Demand for Payment if, and to the extent that, the Trustee is entitled and able to do so.

4. The amount payable by Ambac under this Surety Bond pursuant to a Demand for Payment shall be limited to the Surety Bond Coverage. The Surety Bond Coverage shall be reduced automatically to the extent of each payment made by Ambac hereunder and will be reinstated to the extent of each reimbursement of Ambac by the Obligor pursuant to Article II of the Guaranty Agreement, dated as of [**the date of the Obligations]** (the "Guaranty Agreement"), by and between Ambac and the Obligor; provided, that in no event shall such reinstatement exceed the Surety Bond Coverage. Ambac will notify the Trustee, in writing within five (5) days of such reimbursement, that the Surety Bond Coverage has been reinstated to the extent of such reimbursement pursuant to the Guaranty Agreement and such reinstatement shall be effective as of the date Ambac gives such notice. The notice to the Trustee will be substantially in the form attached hereto as Attachment 2. The Surety Bond Coverage shall be automatically reduced to the extent that the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of the Ordinance.

5. Any service of process on Ambac may be made to Ambac or the office of the General Counsel of Ambac and such service of process shall be valid and binding as to Ambac. During the term of its appointment, General Counsel will act as agent for the acceptance of service of process and its offices are located at One State Street Plaza, New York, New York 10004, Telephone: (212) 668-0340.

6. This Surety Bond is noncancelable for any reason. The term of this Surety Bond shall expire on the earlier of (i)_____ **(the maturity date of the Obligations)** or (ii) the date on which the Obligor, to the satisfaction of Ambac, has made all payments required to be made on the Obligations pursuant to the Ordinance. The premium on this Surety Bond is not refundable for any reason, including the payment prior to maturity of the Obligations.

7. This Surety Bond shall be governed by and interpreted under the laws of the State of Wisconsin **[or Minnesota, Nebraska, North Carolina, South Carolina, Utah, Vermont, Washington, or Commonwealth of Pennsylvania for financings in those states]**, and any suit hereunder **[seeking specific performance (for Florida)]** in connection with any payment may be brought only by the Trustee within one year **[two years in Minnesota, three years in Maryland and Utah, five years in Kansas]** after (i) a Demand for Payment, with respect to such payment, is made pursuant to the terms of this Surety Bond and Ambac has failed to make such payment or (ii) payment would otherwise have been due hereunder but for the failure on the part of the Trustee to deliver to Ambac a Demand for Payment pursuant to the terms of this Surety Bond, whichever is earlier.

8. <u>One of the following paragraphs may apply:</u>

ADDITIONAL PARAGRAPH FOR CALIFORNIA TRANSACTIONS:

In the event that Ambac were to become insolvent, any claims arising under this Surety Bond would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

ADDITIONAL PARAGRAPH FOR CONNECTICUT TRANSACTIONS:

In the event that Ambac were to become insolvent, any claims arising under this Surety Bond would be excluded from coverage by the Connecticut Insurance Guaranty Association.]

ADDITIONAL PARAGRAPH FOR FLORIDA TRANSACTIONS:

The insurance provided by this Surety Bond is not covered by the Florida Insurance Guaranty Association.

ADDITIONAL PARAGRAPH FOR NEW YORK TRANSACTIONS:

The insurance provided by this Surety Bond is not covered by the property/casualty insurance security fund specified by the insurance laws of the State of New York.

FOR NEBRASKA TRANSACTIONS — MUST INDICATE
NEBRASKA LICENSED AGENT (KATHLEEN MCDONOUGH) BELOW

FOR OKLAHOMA TRANSACTIONS:

WARNING: Any person who knowingly, and with intent to injure, defrauds or deceives any insurer, makes any claim for the proceeds of an insurance policy containing any false, incomplete or misleading information is guilty of a felony.

IN WITNESS WHEREOF, Ambac has caused this Surety Bond to be executed and attested on its behalf this ___ day of _____, 20__.

Ambac Assurance Corporation

Attest: _____
Assistant Secretary

By: _____
Vice President and
Assistant General Counsel

By: _____
[Countersignature Agent if applicable]

Attachment 1

Surety Bond No. SB__BE

DEMAND FOR PAYMENT

, 20__

Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: General Counsel

Reference is made to the Surety Bond No. SB____BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

The Trustee hereby certifies that:

(a) Payment by the Obligor to the Trustee was due on _____ [a date not less than one (1) day prior to the applicable payment date for the Obligations] under the Ordinance attached hereto as Exhibit A, in an amount equal to $_____ (the "Amount Due"). The Amount Due is payable to the Owners of the Obligations on _____.

(b) $_____ has been deposited in the _____ [fund/account] from moneys paid by the Obligor or from other funds legally available to the Trustee for payment to the Owners of the Obligations, which amount is $_____ less than the Amount Due (the "Deficiency").

(c) The Trustee has not heretofore made demand under the Surety Bond for the Amount Due or any portion thereof.

The Trustee hereby requests that payment of the Deficiency (up to but not in excess of the Surety Bond Coverage) be made by Ambac under the Surety Bond and directs that payment under the Surety Bond be made to the following account by bank wire transfer of federal or other immediately available funds in accordance with the terms of the Surety Bond:

_____ [Trustee's Account]

[Trustee]
By: _____
Its: _____

[INSERT FRAUD LANGUAGE IF APPLICABLE]

Attachment 2

Surety Bond No. SB__BE

NOTICE OF REINSTATEMENT

, 20__

[Trustee]

[Address]

Reference is made to the Surety Bond No. SB____BE (the "Surety Bond") issued by Ambac Assurance Corporation ("Ambac"). The terms which are capitalized herein and not otherwise defined have the meanings specified in the Surety Bond unless the context otherwise requires.

Ambac hereby delivers notice that it is in receipt of payment from the Obligor pursuant to Article II of the Guaranty Agreement and as of the date hereof the Surety Bond Coverage is $_____, subject to a reduction as the Reserve Requirement for the Obligations is lowered or reduced pursuant to the terms of the Ordinance.

AMBAC ASSURANCE CORPORATION

Attest: _____ By: _____
Title: Title:

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APPENDIX H

AMORTIZED VALUE REDEMPTION PRICES FOR THE SERIES 2007 A BONDS

See next page

	4/1/2013	4/1/2014	4/1/2015	4/1/2016	4/1/2017	4/1/2018	4/1/2019	4/1/2020
Par Amount	$ 1,575,000	$ 1,650,000	$ 1,730,000	$ 1,820,000	$ 1,910,000	$ 2,015,000	$ 2,120,000	$ 2,230,000
Coupon	5.00%	5.00%	5.00%	5.25%	5.25%	5.25%	5.25%	5.25%
Yield	3.77%	3.82%	3.88%	3.95%	4.00%	4.06%	4.11%	4.17%

Interest							Maturity	
Payment Date	2013	2014	2015	2016	2017	2018	2019	2020
5/24/2007	106.401	107.050	107.514	109.627	110.091	110.356	110.606	110.656
10/1/2007	106.058	106.735	107.227	109.309	109.799	110.091	110.364	110.438
4/1/2008	105.557	106.274	106.808	108.843	109.370	109.700	110.007	110.115
10/1/2008	105.047	105.803	106.380	108.367	108.932	109.302	109.642	109.786
4/1/2009	104.527	105.324	105.944	107.882	108.486	108.896	109.271	109.450
10/1/2009	103.997	104.836	105.499	107.388	108.030	108.482	108.891	109.107
4/1/2010	103.458	104.338	105.046	106.884	107.566	108.059	108.504	108.757
10/1/2010	102.908	103.831	104.583	106.370	107.092	107.628	108.109	108.400
4/1/2011	102.348	103.314	104.112	105.846	106.609	107.188	107.705	108.035
10/1/2011	101.777	102.788	103.632	105.311	106.116	106.738	107.294	107.663
4/1/2012	101.196	102.251	103.143	104.766	105.614	106.280	106.873	107.282
10/1/2012	100.603	101.704	102.644	104.210	105.101	105.813	106.445	106.894
4/1/2013	100.000	101.147	102.135	103.644	104.578	105.336	106.007	106.498
10/1/2013		100.578	101.616	103.065	104.044	104.849	105.561	106.093
4/1/2014		100.000	101.088	102.476	103.500	104.353	105.105	105.680
10/1/2014			100.549	101.875	102.945	103.846	104.640	105.259
4/1/2015			100.000	101.262	102.379	103.329	104.165	104.829
10/1/2015				100.637	101.802	102.802	103.681	104.389
4/1/2016				100.000	101.213	102.263	103.186	103.941
10/1/2016					100.612	101.714	102.682	103.483
4/1/2017					100.000	101.154	102.167	103.016
10/1/2017						100.583	101.642	102.539
4/1/2018						100.000	101.105	102.051
10/1/2018							100.558	101.554
4/1/2019							100.000	101.047
10/1/2019								100.528
4/1/2020								100.000
10/1/2020								
4/1/2021								
10/1/2021								
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	4/1/2021	4/1/2022	4/1/2023	4/1/2025	4/1/2027	4/1/2030	Total
Par Amount	$ 2,345,000	$ 2,470,000	$ 2,600,000	$ 5,615,000	$ 6,220,000	$ 10,615,000	$ 44,915,000
Coupon	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	
Yield	4.21%	4.24%	4.27%	4.31%	4.33%	4.34%	

Interest Payment Date	2021	2022	2023	2025	2027	2030	Total Amortized Dollar Value
5/24/2007	110.826	111.041	111.198	111.617	112.164	113.101	49,918,528.75
10/1/2007	110.626	110.856	111.027	111.468	112.031	112.987	49,833,822.00
4/1/2008	110.330	110.581	110.773	111.245	111.832	112.814	49,708,150.10
10/1/2008	110.028	110.301	110.513	111.018	111.628	112.637	49,579,837.00
4/1/2009	109.719	110.014	110.247	110.785	111.420	112.456	49,448,831.55
10/1/2009	109.403	109.721	109.976	110.548	111.207	112.272	49,315,205.10
4/1/2010	109.081	109.422	109.699	110.305	110.989	112.083	49,178,689.30
10/1/2010	108.752	109.117	109.416	110.057	110.767	111.890	49,039,396.35
4/1/2011	108.417	108.806	109.127	109.804	110.541	111.693	48,897,339.00
10/1/2011	108.074	108.487	108.832	109.545	110.309	111.492	48,752,231.10
4/1/2012	107.724	108.162	108.531	109.281	110.072	111.286	48,604,109.85
10/1/2012	107.366	107.830	108.223	109.011	109.830	111.076	48,452,950.45
4/1/2013	107.002	107.491	107.908	108.735	109.583	110.862	48,298,762.55
10/1/2013	106.629	107.145	107.587	108.453	109.330	110.642	46,575,795.45
4/1/2014	106.248	106.792	107.259	108.165	109.072	110.418	46,424,964.40
10/1/2014	105.860	106.431	106.924	107.871	108.809	110.190	44,630,844.45
4/1/2015	105.463	106.062	106.582	107.571	108.539	109.956	44,483,508.95
10/1/2015	105.058	105.685	106.233	107.264	108.264	109.717	42,612,825.35
4/1/2016	104.645	105.301	105.876	106.951	107.983	109.473	42,469,231.40
10/1/2016	104.223	104.908	105.511	106.630	107.696	109.223	40,514,285.70
4/1/2017	103.792	104.507	105.139	106.303	107.403	108.968	40,376,642.85
10/1/2017	103.351	104.098	104.758	105.969	107.103	108.708	38,338,007.25
4/1/2018	102.902	103.680	104.370	105.628	106.797	108.442	38,206,635.10
10/1/2018	102.443	103.253	103.973	105.279	106.484	108.170	36,069,385.40
4/1/2019	101.974	102.817	103.568	104.923	106.164	107.892	35,944,549.35
10/1/2019	101.496	102.372	103.154	104.559	105.838	107.609	33,709,254.80
4/1/2020	101.008	101.917	102.732	104.187	105.504	107.319	33,591,380.20
10/1/2020	100.509	101.452	102.300	103.808	105.163	107.023	31,253,049.70
4/1/2021	100.000	100.978	101.859	103.420	104.815	106.720	31,142,344.60
10/1/2021		100.494	101.409	103.023	104.459	106.411	28,696,454.70
4/1/2022		100.000	100.949	102.618	104.096	106.095	28,593,430.15
10/1/2022			100.479	102.205	103.725	105.772	26,030,657.55
4/1/2023			100.000	101.782	103.345	105.443	25,935,892.75
10/1/2023				101.351	102.958	105.106	23,251,848.15
4/1/2024				100.910	102.562	104.761	23,165,833.05
10/1/2024				100.460	102.157	104.410	23,078,115.90
4/1/2025				100.000	101.744	104.050	22,988,384.30
10/1/2025					101.322	103.683	17,308,178.85
4/1/2026					100.890	103.308	17,241,502.20
10/1/2026					100.450	102.925	17,173,478.75
4/1/2027					100.000	102.534	17,103,984.10
10/1/2027						102.134	10,841,524.10
4/1/2028						101.725	10,798,108.75
10/1/2028						101.307	10,753,738.05
4/1/2029						100.881	10,708,518.15
10/1/2029						100.445	10,662,236.75
4/1/2030						100.000	10,615,000.00

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